MONETARY POLICY AND THE STATE OF THE ECONOMY

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

JULY 10, 2019

Printed for the use of the Committee on Financial Services

Serial No. 116–38

U.S. GOVERNMENT PUBLISHING OFFICE
39–738 PDF WASHINGTON : 2020

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MONETARY POLICY AND THE STATE OF THE ECONOMY

Wednesday, July 10, 2019

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:08 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Sherman, Meeks, Clay, Scott, Green, Cleaver, Perlmutter, Himes, Foster, Beatty, Heck, Vargas, Gottheimer, Gonzalez of Texas, Lawson, Tlaib, Porter, Axne, Casten, Pressley, Ocasio-Cortez, Wexton, Lynch, Adams, Dean, Garcia of Illinois, Garcia of Texas, Phillips; McHenry, Wagner, King, Lucas, Posey, Luetkemeyer, Duffy, Stivers, Barr, Tipton, Williams, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, and Riggleman.

Chairwoman WATERS. The Financial Services Committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Monetary Policy and the State of the Economy."

I now recognize myself for 4 minutes to give an opening statement. Today, this committee convenes for a hearing on monetary policy and the state of the economy.

Chairman Powell, welcome back. I would like to start by addressing the current elephant in the room when it comes to monetary policy and the Fed.

This President has made it clear that he has no understanding or respect for the independence of the Federal Reserve. He has said the Fed, "doesn't have a clue," and called it the most difficult problem for the United States. According to media reports, he has discussed firing Chairman Powell just as he has fired others with whom he does not agree.

Let's be clear. It is essential that the Federal Reserve maintain its independence from the Executive Branch. And so, I urge Chairman Powell and other Federal Reserve Board Governors not to submit to the high-pressure tactics of this President who continues to push reckless and harmful economic and social policies.

Another issue I hope Chairman Powell will address today is Facebook's recently announced plan, along with 27 other companies, to develop a cryptocurrency and digital wallet. I and other Democrats on the committee have raised concerns that Facebook's planned products may ultimately be intended to establish a parallel banking and monetary policy system to rival the dollar.

In a letter last week, we asked Facebook to agree to a moratorium on any movement forward on its plans to create a cryptocurrency or digital wallet. I believe that what Facebook is planning raises serious privacy, trading, national security, and monetary policy concerns for consumers, investors, the U.S. economy, and the global economy.

But Facebook's foray into this field should signal to all of us that our current system of regulation lacks adequate coordination, safeguards, and attention to cryptocurrency.

Chairman Powell, the Fed should be a leader on this issue and should not take a wait-and-see approach when it comes to examining a financial system involving 2.4 billion people. So, I look forward to hearing your views on Facebook's plans to create a cryptocurrency today.

Another issue I would like to discuss is bank deregulation. I remain concerned about the Federal Reserve's actions to weaken safeguards that Congress and Chairman Powell's predecessors put in place following the financial crisis. Specifically, it appears that the Fed may be following the Trump Administration's deregulatory plan to weaken the capital and liquidity buffers of some of the largest banks.

As I have said before, I believe this to be ill-advised, particularly when many economists, including economists at the Federal Reserve, believe that current bank capital levels are on the low end of what would be necessary to withstand another financial crisis. I look forward to your testimony and to discussing these matters with you today.

The Chair now recognizes the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes for an opening statement.

Mr. MCHENRY. I thank the Chairwoman for yielding. I would also like to welcome Chairman Powell back to the committee.

Chairman Powell's prioritized outreach to Congress and Members of this body have benefited greatly from hearing his thoughts in February and in individual meetings since then. So, we thank you for your return. I know the markets are interested in your testimony, but we, as policymakers, are also interested in your testimony.

As I stated at our hearing in February, the economy over the last 2½ years has witnessed remarkable growth, and unemployment has reached lows that many believed were impossible. Republican-led tax relief and regulatory reform have supported these trends with millions of Americans benefiting from our policies. We are seeing this in wage growth. We are seeing this in continued job growth. And all Americans are benefiting from this.

These benefits continue to endure 5 months since your last testimony. And in the most recent FOMC statement, the Fed concluded that the labor markets remain strong and that economic activity is rising. Job gains have been solid, and the unemployment rate remains low.

But we cannot take our foot off the pedal. In February, we discussed how the Fed was undertaking targeted rulemaking to provide regulatory relief that allows financial institutions to operate efficiently in the communities that they serve and compete globally as well.

I hope that you, Chairman Powell, will continue to work to undertake these efforts with a sense of urgency, especially in the rule-making category. I also encourage Chairman Powell to maintain his commitment to transparency and proactive communication with Capitol Hill, especially when the Fed is considering changes to its policies and operations.

At our last hearing, for instance, the Chairman noted that the Fed continues to support its current inflation target. But as we know, there are numerous proposals that would affect how the Fed might pursue that target. I hope that the Fed will approach such proposals with an appropriate level of prudence, given the limitations of the central bank's tool kits at this point in our economic cycle, and also until we fully understand how those limitations have emerged and how they can reliably be overcome.

Finally, let me reiterate my concerns, concerns shared by the Fed itself, that global economic uncertainty could result in headwinds here at home. Prior to our February hearing, the Fed made clear that Europe and China represent the risks that the Fed would continue to monitor and, where appropriate, work to mitigate. I hope we can touch on those things today.

Let me highlight China in particular. When the Chairman last appeared before our committee, he noted that China's economy is State-run but that Beijing has also attempted to make certain market-oriented reforms. I am concerned that these reforms may not be deep enough.

When the world's second largest economy is a one-party state without the rule of law, without transparent decision-making, where monetary policy and allocation of capital bends to politics and cronyism, where 1 million citizens can be locked up in camps while another million take to the streets to defend their freedoms, then we all need to focus on that country and its regime as a unique source of risk to the global stability and global growth.

So, I would encourage the Chairman to work with his colleagues both here and abroad so that we have a sufficient understanding of China, as well as a sufficient set of tools within central banks if something were to go wrong.

And again, thank you, Chairman Powell, for returning today. Thank you for your responsiveness. Your candor is welcome and encouraged. And we thank you for attempting to speak like a normal human being even amidst very complex financial markets and complex decision-making within our independent monetary policy group called the Federal Reserve.

Thank you.

Chairwoman WATERS. The Chair now recognizes the subcommittee Chair, Mr. Cleaver, for 1 minute.

Mr. CLEAVER. Thank you, Madam Chairwoman. And we are pleased to have you here again, Mr. Chairman. Thank you for being here.

I wanted to discuss the impact of this trade war, over 500 days in this trade war. But I can hardly move there because the number one concern I am having is that this Administration is very publicly trying to force financial markets and the Federal Reserve to lower interest rates to offset what I think to be an irrational trade war and poor fiscal policies.

And the issue for me is that, in January, I will have been on this committee for 15 years, and I have never seen a President meddle in the Federal Reserve as this President has, and it is deeply disturbing. And the problem is that it seems to be working, because we are moving in a direction that he has been ordering. And hopefully, you can address some of this when we get back into the question-and-answer period.

Thank you, Madam Chairwoman.

Chairwoman WATERS. The Chair now recognizes the subcommittee ranking member, Mr. Stivers, for 1 minute.

Mr. STIVERS. Thank you, Madam Chairwoman.

Chair Powell, welcome back to the committee. Because of the tax cut and regulatory reforms, the U.S. has seen unprecedented economic growth, wage growth, as well as record low unemployment and stable prices. And since the last time you were here, we have seen a mostly steady economy with unemployment at 3.7 percent and consumer prices only edging up about 0.1 percent. But I have heard anecdotal evidence of slowing investment and price increases. I want to thank you for your steady hand on monetary policy. That is an important part of our economic success.

And while acknowledging the recent success, I know the FOMC meetings have pointed to uncertainties in economic outlook, meaning that your data may be telling you the same thing that I have been hearing.

I do agree with Chair Waters—I want to hear about your perspective on Facebook's cryptocurrency. I think they are attempting to undermine the dollar as the world's currency. I also am interested in hearing your views of where we are in the business cycle and what we can do to support you on fiscal and other policies.

I yield back the balance of my time.

Chairwoman WATERS. Thank you very much.

I want to welcome to the committee our distinguished witness, Jerome Powell, Chairman of the Board of Governors of the Federal Reserve System. He has served on the Board of Governors since 2012, and as its Chair since 2017. Mr. Powell has testified before this committee before, and I believe he does not need any further introduction.

Without objection, your written statement will be made a part of the record.

Mr. Powell, you are now recognized to present your oral testimony.

STATEMENT OF THE HONORABLE JEROME H. POWELL, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. POWELL. Thank you, and good morning. Chairwoman Waters, Ranking Member McHenry, and members of the committee, I am pleased to present the Federal Reserve's semi-annual monetary policy report to Congress.

Let me start by saying that my colleagues and I strongly support the goals of maximum employment and price stability that Congress has set for us for monetary policy. We are committed to providing clear explanations about our policies and activities. Congress has given us an important degree of independence so that we can effectively pursue our statutory goals based on objective analysis and data. We appreciate that our independence brings with it an obligation for transparency so that you and the public can hold us accountable.

Today, I will review the current economic situation and outlook before turning to monetary policy. I will also provide an update on our ongoing public review of our framework for setting monetary policy.

The economy performed reasonably well over the first half of 2019, and the current expansion is now in its eleventh year. However, inflation has been running below the FOMC's symmetric 2 percent objective. And crosscurrents, such as trade tensions and concerns about global growth, have been weighing on economic activity and the outlook. The labor market remains healthy. Job gains averaged 172,000 per month from January through June. This number is lower than the average of 223,000 jobs per month last year, but above the pace needed to provide jobs for new workers entering the labor force. Consequently, the unemployment rate moved down from 3.9 percent in December to 3.7 percent in June, close to its lowest level in 50 years. Job openings remain plentiful, and employers are increasingly willing to hire workers with fewer skills and train them.

As a result, the benefits of a strong job market have been more widely shared in recent years. Indeed, wage gains have been higher for lower-skilled workers. That said, individuals in some demographic groups and in certain parts of the country continue to face challenges. For example, unemployment rates for African Americans and Hispanics remain well above the rates for whites and Asians.

Likewise, the share of the population with a job is higher in urban areas than in rural communities. And this gap has widened over the past decade. A box in the July monetary policy report provides a comparison of employment and wage gains over the current expansion for individuals with different levels of education.

GDP increased at an annual rate of 3.1 percent in the first quarter of 2019, similar to last year's pace. This strong reading was driven largely by net exports and inventories, components that are not generally reliable indicators of ongoing momentum. The more reliable drivers of growth in the economy are consumer spending and business investment.

While growth and consumer spending was weak in the first quarter, incoming data show that it has bounced back and is now running at a solid pace. However, growth in business investment seems to have slowed notably. And overall growth in the second quarter appears to have moderated. The slowdown in business fixed investment may reflect concerns about trade tensions and slower growth in the global economy. In addition, housing investment and manufacturing output declined in the first quarter and appeared to have decreased again in the second quarter.

After running close to our 2 percent objective over much of last year, overall consumer price inflation measured by the 12-month change in the price index for personal consumption expenditures, or PCE inflation, declined earlier this year and stood at 1.5 percent in May. The 12-month change in core PCE inflation, which excludes food and energy prices and tends to be a better indicator of future inflation, has also come down this year and was 1.6 percent in May.

Our baseline outlook is for economic growth to remain solid, labor markets to stay strong, and inflation to move back up over time to the committee's 2 percent objective. However, uncertainties about the outlook have increased in recent months. In particular, economic momentum appears to have slowed in some major foreign economies, and that weakness could affect the U.S. economy.

Moreover, a number of government policy issues have yet to be resolved including trade developments, the Federal debt ceiling, and Brexit. And there is a risk that weak inflation will be even more persistent than we currently anticipate.

We are carefully monitoring these developments and will continue to assess their implications for the U.S. economic outlook and inflation.

The nation also continues to confront important longer-run challenges. Labor force participation by those in their prime working years is now lower in the United States than in most other nations with comparable economies.

As I mentioned, there are troubling labor market disparities across demographic groups and different parts of the country. The relative stagnation of middle and lower incomes and low levels of upward mobility for lower-income families are also ongoing concerns. In addition, finding ways to boost productivity growth which leads to rising wages and living standards over the longer term should remain a high national priority.

And I remain concerned about the longer-term effects of high and rising Federal debt which can restrain private investment and, in turn, reduce productivity and overall economic growth. The longer-run vitality of the U.S. economy would benefit from efforts to address these issues.

Against this backdrop, the FOMC maintained the target range for the Federal funds rate at 2½ percent in the first half of this year.

At our January, March, and May meetings, we stated that we would be patient as we determined what future adjustments to the Federal funds rate might be appropriate to support our goals of maximum employment and price stability.

At the time of our May meeting, we were mindful of the ongoing crosscurrents from global growth and trade, but there was tentative evidence that these crosscurrents were moderating. The latest data from China and Europe were encouraging, and there were reports of progress in trade negotiations with China. Our continued patience stance seemed appropriate, and the committee saw no strong case for adjusting our policy rate.

Since our May meeting, however, these crosscurrents have reemerged, creating greater uncertainty. Apparent progress on trade turned to greater uncertainty. And our contacts in business and agriculture report heightened concerns over trade developments.

Growth indicators from around the world have disappointed on net raising concerns that weakness in the global economy will continue to affect the U.S. economy. These concerns may have contributed to the drop in business confidence in some recent surveys and may have started to show through to incoming data.

At our June meeting, we indicated that in light of increased uncertainties about the economic outlook and muted inflation pressures, we would closely monitor the implications of incoming information for the economic outlook and would act as appropriate to sustain the expansion.

Many FOMC participants saw that the case for a somewhat more accommodative monetary policy stance had strengthened. Since then, based on incoming data and other developments, it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook. Inflation pressures remain muted.

The FOMC has made a number of important decisions this year about our framework for implementing monetary policy and our plans for completing the reduction of the Fed's securities holdings.

At our January meeting, we decided to continue to implement monetary policy using our current policy regime with ample reserves and emphasize that we are prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments.

In our March meeting, we communicated our intentions to slow, starting in May, the decline in the Fed's aggregate securities holdings and to end the reduction in these holdings in September. The July monetary policy report provides details on these decisions. The report also includes an update on monetary policy rules. The FOMC routinely looks at monetary policy rules that recommend a level for the Federal funds rate based on inflation and unemployment rates. I continue to find these rules helpful, although using these rules requires careful judgment.

We are conducting a public review of our monetary policy strategy, tools, and communications, the first review of its kind for the FOMC. Our motivation is to consider ways to improve the committee's current policy framework and to best position the Fed to achieve maximum employment and price stability. The review has started with outreach to and consultation with a broad range of people and groups through a series of Fed Listens events. The FOMC will consider questions related to the review at upcoming meetings, and we will publicly report the outcome of our discussions.

Thank you, and I will be happy to respond to your questions.

[The prepared statement of Chairman Powell can be found on page 62 of the appendix.]

Chairwoman WATERS. Thank you very much, Chairman Powell. I now recognize myself for 5 minutes for questions.

On June 18th, Facebook announced its plans to launch Libra, a new global cryptocurrency, as well as a new payment system, Calibra, which will facilitate Libra transactions. On June 24th, the Federal Reserve's Vice Chairman of Supervision, Randal Quarles wrote a letter in his capacity as Chairman of the Financial Stability Board to the G20 leaders noting that, "a wider use of new types of cryptocurrency, of cryptoassets for retail payment purposes would warrant close scrutiny by authorities to ensure that they are subject to high standards of regulation.” Thus, signaling that global regulatory coordination of Facebook will be a priority.

Chairman Powell, did the Federal Reserve speak with Facebook about their Libra currency? And, if so, were any concerns raised? Does the Federal Reserve have any authority to supervise and regulate what could be the world’s largest payment system? Does the Federal Reserve have any concerns about monetary policy with regard to Libra?

Mr. POWELL. Thank you, Madam Chair.

We did actually have a meeting with representatives of Facebook a couple of months before the announcement. I think they made fairly broad set of visits to authorities around the world.

But getting to your questions. Let me start by saying that we do support responsible innovation in the financial services industry as long the associated risks are appropriately identified and managed.

And as we will discuss, while the project sponsors hold out the possibility of public benefits including improved financial access for consumers, Libra raises many serious concerns regarding privacy, money laundering, consumer protection, and financial stability. These are concerns that should be thoroughly and publicly addressed before proceeding. And that is why at the Fed we have set up a working group to focus on this set of issues. We are coordinating with our colleagues in the government in the United States, the regulatory agencies and Treasury. We are coordinating with central banks and governments around the world to look into this.

And I will just add that the process of addressing these concerns we think should be a patient and careful one and not a sprint to implementation.

Chairwoman WATERS. So are you speaking of a working group within FSOC?

Mr. POWELL. Well, the Fed—we have our own working group. I believe FSOC has already got a working group at the staff level, or in effect, has a working group at the staff level.

Chairwoman WATERS. Well, FSOC does have a cryptocurrency working group. Is FSOC or this working group reviewing the extensive policy questions and potential impact that Libra and Calibra have? Do you know what they are doing?

Mr. POWELL. I do believe they are. I know there was a staff level meeting just last week to focus on Libra at FSOC. So all the agencies were there. So I think the answer to your question would be yes.

Chairwoman WATERS. Do you think that FSOC will designate— or is FSOC considering designating the Libra association and Calibra either as systemic financial market utilities or nonbank financial companies and subject them to enhanced regulatory oversight? Are you aware of that?

Mr. POWELL. I think it is early to say. There hasn’t been a principles meeting of FSOC since the Libra announcement. And while there have been conversations, I think it is highly likely that FSOC will be taking this on in a serious way. But that is in the hands of the Treasury secretary who chairs FSOC.

Chairwoman WATERS. Thank you very much.

Mr. Chairman, if you got a call from the President today or tomorrow and he said, I am firing you, pack up, it is time to go, what would you do?

Mr. POWELL. Well, of course, I would not do that.

Chairwoman WATERS. I can't hear you.

Mr. POWELL. My answer would be no.

Chairwoman WATERS. And you would not pack up and you would not leave?

Mr. POWELL. No, ma'am.

Chairwoman WATERS. Because you think the President doesn't have the authority? Is that why you would not leave?

Mr. POWELL. I have kind of said what I intended to say on this subject. And what I have said is that the law clearly gives me a 4-year term, and I fully intend to serve it.

Chairwoman WATERS. Okay. So I hope everybody heard that.

With that, I will yield to the gentleman from North Carolina, the ranking member, Mr. McHenry.

Mr. MCHENRY. So, Chairman Powell, in your testimony you said you will use macroeconomic data to inform your decision on whether lower interest rates are required at the end of the month or not. What specific data would likely lead to you recommending a change in rates?

Mr. POWELL. Between now and the end of the month, there is data coming in on almost everything. You will have labor market data. You will have second quarter GDP. You will have retail sales. You will have a broad range of data coming over the next 3 weeks. And we will be looking at all of that. I wouldn't point to any one data point or even any period. We try to look over longer periods of time and assess what is really going on on a more fundamental level, and that is what we will do as we evaluate the incoming data.

Mr. MCHENRY. And there is also an understanding of the market assumption of what the Federal Reserve open markets committee will do as well, is there not?

Mr. POWELL. There is. So we look at a broad range of financial conditions. We don't focus on any one thing. But we—our policy works through financial conditions, and so we will look at a broad range of things in the financial markets.

Mr. MCHENRY. So a broad range of things. Macroeconomic data. Emotion?

Mr. POWELL. Emotion? Not on our part. We will try to be very rational and analytical and transparent about how we are thinking about these things.

Mr. MCHENRY. So along the lines of that transparency, the velocity of the economy you speak to and the larger global macroeconomic issues that are at play here as well.

So along those lines, does the Federal Reserve have the capacity to make independent monetary policy decisions under law?

Mr. POWELL. Yes, we do.

Mr. MCHENRY. Is that impeded by people saying negative things about you?

Mr. POWELL. We—

Mr. MCHENRY. Is that enhanced or diminished based off people saying positive or negative things about you?

Mr. POWELL. Neither. We will always focus on doing the job you have assigned us. And we will always do it to the best of our ability and based on objective analysis and facts.

Mr. MCHENRY. So along those lines—so we have a significant change to LIBOR policy. And I wrote to Vice Chair Quarles along those lines. The Fed has spoken publicly about this as well, that there has been major progress made in terms of the swamps and derivatives contracts. I remain concerned about legacy retail contracts as well.

Has the Fed undertaken analysis along those lines about legacy retail contracts and the use of LIBOR?

Mr. POWELL. Indeed we have. And that is a very important part of the project going forward. So we have reached out to representatives of retail users of LIBORfor some time now and are meeting with them regularly and developing plans to deal with that. Because as you know, as you pointed out in your letter, a significant quantity of LIBOR contracts are, in fact, mortgages and the like. So that is a really important area.

We did the derivative things first because they were close to hand and quite large hard. But we are working hard on the retail side now.

Mr. MCHENRY. So is there any estimate on the number of loans that have to be renegotiated because of this policy change?

Mr. POWELL. I don't have a number for you.

Mr. MCHENRY. Okay. I also want to touch on project Libra. You have mentioned in answer to a number of those questions, it looked like you are quite prepared for that. You mentioned financial stability as a concern. Why? Why is project Libra a question of financial stability, in your view?

Mr. POWELL. Well, really due to the possibility of quite broad adoption. Facebook has a couple billion plus users, so you have, I think for the first time, the possibility of a very broad adoption. And if there were problems there associated with money laundering, terrorist financing, any of the things that we are all focused on, including the company, they would immediately rise to systemically important levels just because of the mere size of the Facebook network. And the company has said so explicitly.

Mr. MCHENRY. Is it a problem that we don't have a regulatory regime that is permissive of these technologies to be developed here in the United States?

Mr. POWELL. I don't know that that is a problem. That is the question of whether we are impeding blockchain. I don't believe so, but I don't know the answer to that.

Mr. MCHENRY. But there is an opportunity here for financial inclusion benefits and innovation benefits if this worked well, is there not?

Mr. POWELL. There is that possibility. And as I mentioned, that is the main benefit the company is holding out. And I also mentioned that we are open to financial innovation. We just want it to take place in a safe and sound way.

Mr. MCHENRY. Thank you.

Chairwoman WATERS. The gentlewoman from New York, Mrs. Maloney, is now recognized for 5 minutes.

Mrs. MALONEY. Thank you, Madam Chairwoman, and Ranking Member McHenry. And thank you for your service, Chairman Powell.

Chairman, in June the Fed decided not to cut interest rates and to take a wait-and-see approach instead. In your press conference, you said this approach was justified because, "we will see a lot more on all of these issues in the very near term."

Last week we got the job numbers for June, and they were very strong with the employers adding 224,000 jobs. So my question is did the June jobs report change your outlook for whether a reduction in interest rates is appropriate in the near term?

Mr. POWELL. Well, a straight answer to your question is no. But I will give you the context. We look at a broad range of data. So let's start abroad where I think, since the June meeting and for a period before that, the data have continued to disappoint. And that is very broad across Europe and around Asia. And that continues to weigh. And by the way, manufacturing, trade, and investment are weak all around the world. We have a box that talks about that in the monetary policy report.

In the United States, we did get a job report that was positive, and that is great news. And we had some other reasonably good news. I would say the U.S. data came in about as expected. And I would also say that—let's go to trade. We have agreed to begin discussions again with China. And while that is a constructive step, it doesn't remove the uncertainty that we see as overall weighing on the outlook.

So I would say that the bottom line for me is that the uncertainties around global growth and trade continue to weigh on the outlook. In addition, inflation continues to be muted, and those things are still in place.

Mrs. MALONEY. Okay. Mr. Chairman, some economists and many markets participates believe that the Fed should cut interest rates by a full 50 basis points in July rather than a normal cut of 25 basis points. Personally, I don't see the case for cutting rates by 50 basis points because the economy is quite strong right now.

What economic factors do you believe would justify taking the unusual step of cutting rates by a full 50 basis points?

Mr. POWELL. At our meeting, which is in 3 weeks, we will be looking at a full range of data. And I would just take you through the story I just told you. That will be what we are thinking about is the extent to which trade developments and concerns over global growth are weighing on the outlook and also the performance of inflation. Those are the factors that we have identified. And all of that will go into our decisionmaking.

Mrs. MALONEY. And also, Mr. Chairman, you have repeatedly stressed that uncertainty about trade policy is a major economic headwind and is one of the factors that could lead the Fed to cut rates this month. But as we have seen under the President, it is very unlikely that will ever get much certainty on trade policy. He keeps changing every day.

So my question is what kind of progress in trade negotiations do you need to see in order to put your mind at ease about trade developments not being a headwind, to use your term, to economic growth?

Mr. POWELL. I guess I ought to start by saying that no one should interpret what I am saying about trade headwinds as, in any way, a criticism of trade policy. They do not play a role in assessing or criticizing trade policy. It is not something that is assigned to us.

We react to anything that—in principle, anything that can affect our ability to achieve the dual mandate goals you have assigned us is something that could, in principle, call for a policy response.

Right now that is global weakness and trade developments are things that are widely thought to have that effect. That is all. So I wouldn't want to be—I wouldn't want to try to prescribe a specific answer. And, again, it wouldn't be ours to do in the first place.

Mrs. MALONEY. Well, hopefully we will have some answers on trade soon. And thank you for your service.

And I yield back.

Chairwoman WATERS. The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman, and thank you, Chairman Powell, for being here today to testify.

Chairman Powell, Vice Chairman QUARLES just yesterday indicated the Federal Reserve would revise its stress capital buffer proposal in the near future. Vice Chairman Quarles indicated one option would be to look at an average of stress test results over a number of years.

Are you in agreement with Vice Chairman Quarles that this is something that needs to be considered? And what factors might necessitate this change, sir?

Mr. POWELL. So we are in the process of evaluating—I think in the late stages of evaluating how to put into effect the stress capital buffer which merges the results of the stress test with the underlying overall capital framework. It is a complicated exercise. There are many moving pieces. That is one of them. I wouldn't want to single any single one out as important for our consideration, but that is—

Mrs. WAGNER. So the average—taking an average of stress test results over a number of years is something that is under consideration but is maybe a change that you are not necessitating just yet or—

Mr. POWELL. We are very much in the process of evaluating all of those ideas. And I wouldn't want to single that one out as either in or out. There are many pieces. But, yes, that is one of the pieces.

Mrs. WAGNER. Mr. Chairman, you said you are in the late stages. What is your timeframe, do you believe, for coming up with an option in terms of the stress capital buffer proposal?

Mr. POWELL. I would have to come back to you with a date. But it would be soon, in the near future.

Mrs. WAGNER. Thank you.

Chairman Powell, at your January press conference, you were asked whether a $4 trillion balance sheet gave you sufficient fire power to handle a future recession, and you answered yes. However, the Fed's balance sheet, as a share of GDP, is about where the Bank of Japan balance sheet was prior to the financial crisis.

Today, the Bank of Japan has ended up with a balance sheet as large as a Japanese economy with mixed results on inflation and limited room to handle another downturn.

Has Japan's experience, sir, affected your thinking on the appropriate size of the Fed's balance sheet?

Mr. POWELL. I think there are a lot of lessons to be learned from the experience of Japan, really, over the last quarter century. And all of us have looked very carefully at that.

Mrs. WAGNER. And to that point, if I may, why should we feel certain that the U.S. could avoid a similar fate? And perhaps you could elaborate.

Mr. POWELL. What Japan has found itself in a situation where inflation has gotten down close to 0 for a very long time. And they have tried many, many things, including, as you mentioned, extensive asset purchases and all sorts of forward guidance to move inflation back up and have not met with much success, although they continue to struggle to do that. So my main takeaway from that—and, by the way, the European central bank is fighting that battle as well.

Mrs. WAGNER. Yes.

Mr. POWELL. My main takeaway from that, honestly, is that the Fed needs to stand here and try to keep inflation symmetrically at 2 percent. We don't want to get on that road of declining it. To the extent inflation continues to decline and expectations decline, that will show up in lower interest rates which will give the central bank even less firepower to react. And we see that that road is hard to get off of.

So I think it is quite important that we fight at 2 percent, to keep inflation up to 2 percent, and use our tools to achieve that symmetrically. And we are strongly committed to doing that.

Mrs. WAGNER. The most recent monetary policy report stated that, "consumer spending in the first quarter was lackluster but appears to have picked up." And you talked a little bit about this in your opening statement, Mr. Chairman.

Can you, please, explain the possible variables behind lackluster consumer spending and why the recent turnaround?

Mr. POWELL. Well, I think the consumer part of the economy is 70 percent of the economy, and it is healthy. It is strong. It is good job creation. It is rising wages. Worker surveys show that they think jobs are plentiful. Business surveys show that they think workers are scarce. So this is a good place for the consumer part of the economy. And you see that in surveys. You see it in consumer spending and things like that.

Mrs. WAGNER. The concerns about workforce development and having enough able workforce is very key. You are right.

Mr. POWELL. They are. But I think a tight labor force is lifting all sorts of communities into the labor force, and it is good. The issue really is more now on the business side, where we see business—confidence in business investment weakening a bit.

Mrs. WAGNER. I thank you. I have run out of time.

I yield back to the Chair.

Thank you, sir.

Chairwoman WATERS. Mr. Clay, the gentleman from Missouri, is now recognized for 5 minutes.

Mr. CLAY. Thank you, Madam Chairwoman. And thank you, Chairman Powell, for your visit today.

In its blog published just yesterday, the St. Louis Federal Reserve noted that a rise in uncertainty is widely believed to have detrimental effects on macroeconomic, microeconomic, and financial market outcomes and induced responses from monetary fiscal and regulatory policymakers, they wrote. Theoretical models suggest that rising uncertainty can affect economic activity and decisionmaking in various ways. The authors explained, in particular, they noted firms may delay investment and hiring. Households may reduce spending by increasing their savings rate if they anticipate possible changes in their income or wealth.

Financing costs may rise if risk premiums increase. And even in your own testimony submitted to this committee, you noted that consumer spending has bounced back from a sluggish first quarter and is chugging along. And this uncertainty is exacerbated for consumers in Missouri when the President is gloating about how great the economy is, yet the Federal Reserve is considering a rate cut.

How do you account for these mixed messages?

Mr. POWELL. Well, I haven't seen that blog post. But I would strongly agree with the sense of it. We do think that uncertainty can cause businesses to hold back on investment and hiring. In fact, we have been hearing that, in our FOMC-based discussions with businesses around the country, household confidence has remained high. But over time, uncertainty can cause households to hold back as well. So I think that is a pretty standard finding.

Mr. CLAY. What about the factor of savings? How does that play into—

Mr. POWELL. Savings?

Mr. CLAY. Yes.

Is that good or bad?

Mr. POWELL. Sorry?

Mr. CLAY. Is that good or bad for families to save?

Mr. POWELL. Well, the savings rate has actually been fairly high lately. Well, it is good for people to save what they think they need to save. And I think as a general thought, as a general fact, Americans need to save more for retirement than they have. They are not oversaving, they are undersaving in the aggregate, so it is a good thing.

Mr. CLAY. Could they also be saving in anticipation of a calamity? An economic calamity occurring?

Mr. POWELL. Well, yes. I was going to say there is also—it is good to save. But at the same time, if there is a shock to confidence, you can see people pulling back from their regular consumption patterns, and that will show up in demand, and the economy will weaken.

Mr. CLAY. Okay. As far as the decisionmaking on the part of the Fed, are you relying on conventional economic data or being swayed by job owning of the President?

Mr. POWELL. We see the economy as being in a good place, and we are committed to using our tools to keep it there. As we have discussed, the overall economy is performing reasonably well, but we see what we call crosscurrents, principally trade developments and concerns over global growth. And we see those. And many

FOMC participants at the last meeting saw those as weighing on the outlook and calling for, possibly, a more accommodative policy.

Mr. CLAY. Thank you for that response.

And Chairman Powell, despite data proving that diverse companies perform more successfully, we still find that financial services industry is largely white and male at its highest level.

What more can you do as Chair to incentivize diversity and equity within the Federal Reserve System?

Mr. POWELL. Thank you for that question.

We put a very high value on diversity. I strongly believe that having diverse perspectives around the table leads you to better decisions. And I believe in having a culture where people are free to speak and will be heard. And that goes to all different dimensions of diversity.

So we have made, I think, a lot of progress, at that, at the Fed. I would never say there isn't more to do. There is a lot more we can do. And I think we are very focused on that as an organization.

I would say in my—most of my career was in the private sector. I saw that really successful companies, one of the things they do well is they do diversity well, because that is how you get—you get better results with diverse perspectives. So we are strongly committed to that.

Mr. CLAY. Thank you. And my time is up.

I yield back.

Chairwoman WATERS. Mr. Stivers, the gentleman from Ohio, is now recognized for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman. And, Chairman Powell, I really appreciate you being here. I want to thank you for your transparency and accessibility as Fed Chair. And you have been available to all of us in our offices and your office, and I appreciate that.

This committee hearing is about monetary policy and the state of the economy, and I will stay focused on those issues and leave the regulatory issues to when Vice Chair Quarles is here.

And with regard to monetary policy, when I was in your office, I really appreciate you keeping the hundred million Venezuelan bolivars I gave you as you answered to the question on Japan. Once inflation starts rolling, it is really hard to get a control of, as the Venezuelans have found. And so the fact that you guys have a stable price target and are sticking to it I think makes a huge difference. I know that there is a lot of potential shocks, including tariffs and other things, that can impact that. But so far you guys have done a great job on monetary policy.

And in another question about unemployment, and the tight labor markets, I think you talked about the fact that wages are starting to go up. It is starting to actually benefit people who have actually not benefited from this economic expansion over the last 10 years, which is a good thing. And I know some observers have been calling for a so-called hot monetary policy on the premise that further tightening of the labor market will benefit those demographics that have missed out on the expansion and drive up wages and make labor markets start tight and help those folks.

Can you comment on whether the members of the FOMC have talked about those views and what the potential risks and benefits associated with a hot monetary policy might be?

Mr. POWELL. I guess I would start by saying that we don't have any basis or any evidence for calling this a hot labor market. We have wages moving up at a little above 3 percent, and that is good. It is good, because it was more like 2 percent 5 years ago. But 3 percent barely covers productivity. It doesn't even really cover productivity increases and inflation. And it certainty isn't a high enough wage to put any upward pressure on inflation. And we haven't seen—as this long cycle has gone on, we haven't seen wages moving up as sharply as they have in the past.

I do think it is very gratifying that, for the last 2 years, the greater part of wage gains have gone to people at the lower end of the wage spectrum and education spectrum. That is a very positive thing.

But, 3.7 percent is a low unemployment rate. But to call something hot, you need to see some heat. And while we hear lots of reports of companies having a hard time finding qualified labor, nonetheless, we don't see wages really responding. So I don't really see that as a current issue.

Mr. STIVERS. Great.

And, if we want to see wages continue to grow, we are going to need economic growth. And one of the things that this Congress has in front of it is the USMCA. I know a lot of the questions you are going to get are going to be about a trade war with China. But can you comment about the importance of the USMCA and the North American investment that a lot of companies have made in a North American supply chain?

Mr. POWELL. So I wouldn't take a position on the details of the USMCA, though. But I will say that having it passed would remove a real bit of the uncertainty that is weighing on the outlook. And I think it would be quite a positive thing from that standpoint.

Mr. STIVERS. And I think that is what we all need to focus on is fighting the uncertainty. And there are things we can do with that. And I think as policymakers we need to come together and do that.

The last question, because I have only got a minute left, is on Libra and Facebook.

If Facebook can't sufficiently answer your questions about anti-money laundering, know your customer, what would your message be to the banks that provide banking to Facebook? And what would your advice to Facebook be?

Mr. POWELL. Well, I don't think that the project can go forward. And I don't think—I just think it cannot go forward without there being broad satisfaction with the way the company has addressed money laundering, all of those things. There are a number of concerns that I listed at the beginning, data protection, consumer privacy, all of those things will need to be addressed very thoroughly and carefully and, again, in a deliberate process that will not be a sprint to implementation.

Mr. STIVERS. And I want to echo your comments that we all want innovation, but we want innovation that protects data security and the know-your-customer anti-money laundering laws that are so important to our economy.

Thank you.

I yield back the balance of my time.

Chairwoman WATERS. Mr. Scott, the gentleman from Georgia, is now recognized for 5 minutes.

Mr. SCOTT. Thank you very much.

Welcome, Chairman Powell. It's good to see you again.

The first thing I want to say to you is I want you to stay strong, be courageous. It is important for this nation and the economy of the world that the Federal Reserve remain strongly independent. The other thing I want to say to you is have no fear. The President can't fire you. And we in Congress, both Democrats and Republicans, got your back.

Now, I want to go to what I think is—and it has been mentioned a couple of times. This LIBOR business is really disturbing, and it is a serious problem. And let me tell you why. First of all, I think we all know, LIBOR is the London Interbank Offered Rate. Very critical. It has and is the standard for the base rate for hundreds of trillions of dollars both overnight and term loans, debt derivatives. And it is the standard that has been used internationally and extensively in the United States affecting individuals, small businesses, large corporations. So we got a big issue here.

But because of pervasive manipulation now, it is apparent that LIBOR is going to leave us—or be removed within the next year or so. So this creates a big problem.

And so I want to ask you, because the most critical part of this is that parties to both sides of the financial contracts should be and must be concerned in the short-term about the potential ramifications of the end of LIBOR specifically in contracts that do not have a fallback position. And as you know, without a fallback language or some appropriately established safe harbor, until a new reference rate can be used, significant legal problems and challenges are likely to occur.

So with this in mind, as LIBOR's schedule end nears, and so far and is a secured overnight financing rate apparently will take its place, tell us, Mr. Chairman, what can we do? What can be done to accommodate the numerous contacts that do not have fallback provisions?

Mr. POWELL. Thank you, Mr. Scott.

I think you said it very well. I think there are 300 trillion plus in contracts referencing LIBOR in five different currencies. And, the manipulation was revealed really almost a decade ago. And I think the financial conduct authority, which supervises the LIBOR banks has said it will not compel the banks to submit LIBOR past the end of 2021, and LIBOR could then end.

So we have spent many years now looking at ways to make sure that contracts do have fallbacks. And we are working with—we have worked with the retail groups, in particular now, for mortgages and things like that to find a way so that if LIBOR is not published, there will be a rate that is the fallback rate. And that has to be put into contracts in one way or another. It is a vast project. It is one that many, many people are working on and working hard to meet that deadline.

Mr. SCOTT. Yes. And LIBOR will be gone, am I right, are my calculations right, within the next year or so?

Mr. POWELL. It is actually I think the end of 2021. It won't necessarily be gone, but the banks will no longer be required to submit their estimates of their interbank borrowing rates. And so it may go away. And I think we are requiring people to assume that it will so that they will be ready if it does.

Mr. SCOTT. Yes. When you say ready for the dust—

Mr. POWELL. Ready if it does go away.

Mr. SCOTT. Oh, if it does go away.

Mr. POWELL. Yes.

Mr. SCOTT. So if it does go away, what will the situation be like?

Mr. POWELL. Well ideally, the situation we are aiming for is one in which people have either moved their obligations to SOFR, as you mentioned, Security Overnight Funding Rate, or some other rate. Or failing that, they have a rate in their contract where, if LIBOR is no longer published, the other rate just seamlessly falls into place and the two parties to the contract, the consumer and the bank, let's say, they know what the rate is, and they know—so that is what we need to accomplish. Again, we are working hard on it.

Mr. SCOTT. Yes. Thank you, Mr. Chairman.

Mr. POWELL. Thank you.

Chairwoman WATERS. Mr. Kustoff, the gentleman from Tennessee, is now recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman, and thank you for convening today's hearing.

And thank you, Mr. Chairman, for appearing today.

If I could, I would like to follow up on a line of questioning that Congressman Stivers had relating to the USMCA. If you could, could you—we are going to face the option of passing it or not passing it in this Congress.

What is the effect to our economy if we do, in fact, pass the USMCA? And, conversely, what is the effect to the economy if we fail to pass the USMCA?

Mr. POWELL. I don't actually have a precise evaluation for you of what the effects of passage would be. Overall, it is pretty similar to NAFTA. So, I would imagine that the longer term difference—the differences will show up over the longer term.

I think the effects of not passing it would really depend on what happens to NAFTA. If NAFTA were then to be terminated, there could be quite a lot of uncertainty. And I think there is some uncertainty now about what is going to happen. I think the passage of it would remove that uncertainty, and that would be a good thing.

Mr. KUSTOFF. And it would also be positive for our farmers and our ag communities if USMCA were passed.

Mr. POWELL. Yes, I think it would.

Mr. KUSTOFF. Do you have an opinion how the passage or the nonpassage of the USMCA affects our leverage with China in negotiations and trade negotiations?

Mr. POWELL. I don't. I don't think it would be appropriate for me to comment on those negotiations, and I don't really have an answer for you on that.

Mr. KUSTOFF. In the next week, next several weeks, purportedly we are going to be voting on a proposal to raise the minimum wage to $15 an hour. There was a CBO report that came out in the last day or so that estimated that a raise in the minimum wage to $15 an hour could cut, should cut 1.3 million jobs, up to 3.7 million jobs.

What would the effect be to the economy if Congress were to pass a minimum wage bill of raising the minimum wage to $15 an hour?

Mr. POWELL. The question of the minimum wage is really one for you. I think the studies, there are a range of studies that have different outcomes, but like the CBO study, what they tend to show is that a number of people get higher wages and a number of people lose their jobs. And those numbers will change, depending on what assumptions you make. And it really is something that there is no consensus among economists. Economists are all over the place on this.

So it is really a question for you to sort of look at—I would look at a range of studies and not take any single one and I would weigh that and say, are the benefits worth the likely costs?

Mr. KUSTOFF. What is the effect to the economy if 1.3 million people lose their jobs or 3.7 million people lose their jobs as a result of the rise in minimum wage to $15 an hour?

Mr. POWELL. It would depend on—again, there would be costs and benefits. We know that some people would get higher wages and they would—presumably, they would be better off and they would spend more. So it is not a judgment that we make on net. It is a judgment that you have to make that there will be people who are made better off by it and those are all the people who have the higher minimum wage, but there will be a number of people who lose their jobs because that is what will happen, I think, empirically.

Mr. KUSTOFF. Would the Federal Reserve be concerned if 1.3 million people to 3.7 million people lost their jobs because the minimum wage was raised to $15 an hour?

Mr. POWELL. Again, Mr. Kustoff, we do not take a position. We never have taken a position on the minimum wage, and we would take whatever decision you make as the decision that we would put into our models and we would just take it as a given. We wouldn't express either support or disapproval.

Mr. KUSTOFF. When I am back home in west Tennessee, what I hear generally from employers, small, medium, and large, the economy is good. We are making money. We are making more money than we made in 20 or 30 years. We can't find enough employees. We can't find employees with soft skills. We can't find employees who have the skills we need for the jobs. We can't find employees who can pass the drug test.

Specifically, you have talked about this publicly, the effect of the opioid crisis on the workforce, what is your feeling with that? And how does the opioid crisis affect the workforce?

Mr. POWELL. An extraordinary number of people are taking opioids in one form or another and it weighs on labor force participation, largely but not exclusively, on younger males, also younger women, and it is a national crisis really. And, the humanitarian aspect of it is completely compelling, but the economic impact is also quite substantial.

Mr. KUSTOFF. Thank you, Mr. Chairman.

Mr. POWELL. Thank you.

Chairwoman WATERS. The gentleman from Colorado, Mr. Perlmutter, is now recognized for 5 minutes.

Mr. PERLMUTTER. Chairman, good to see you. Thanks for your testimony today. Let me just start with some questions that Mr. Scott was asking on Libra. Given sort of the uncertainties and the ability to kind of manage this new currency, if you will—would the Federal Reserve, would you support some postponement in their implementing Libra or any kind of a moratorium until we kind of have a better understanding of the impact really on our economy and our ability to manage money?

Mr. POWELL. I think that there are deep, important, serious questions across a range of issues here that will need to be addressed, and the process of doing that is going to have to be patient and thorough and not a sprint, and that is what I would say. So I do think there is a lot of work going on at the Fed and at other agencies and I think in the government to understand these issues. I think it is something that doesn't fit neatly or easily within our regulatory scheme. It does have potentially systemic scale, and for all the reasons we have discussed it needs a careful look and so I strongly believe we need to all be taking our time here.

Mr. PERLMUTTER. I am going take that as a yes. Thank you.

I have a couple of other questions, and I don't know if you have your booklet in front of you, but I always like the graphs that you folks prepare because they are very informative and especially graph 2. In my district in Colorado—so graph 2 is really the unemployment rate and the fact that for about 9, 10 years now, there has been a steady decrease in unemployment. In my district, in Colorado, we have enjoyed under 3 percent for about 7 years running, which is pretty remarkable. So I want to thank you and I want to thank the Federal Reserve for the role you have been playing there.

But one of your answers really, I think, is important to what we face as Members of Congress is the fact that for most Americans, their wages still, they are struggling, month to month, year to year, to get ahead to really be able to deal with the costs that we all see.

So in your predictions in what the Federal Reserve is doing, do you see improvement in what everyday Americans are making in sort of catching up and getting ahead where they lost a ton through the recession and the years right after that?

Mr. POWELL. So what we are hearing, we are hearing this quite a lot from people who work and live in low- and moderate-income communities is that there really hasn't been a recovery for these people until recently. But now, they are feeling, with this tight labor market, they are feeling employers who are waiving issues that might have prevented people from being in the workforce, they are willing to look past those. They are recruiting people who have been outside the labor force. In fact, we have had people say to us that this is really the best deal that they have had for many years, if ever.

And all of that really, in my thinking and our thinking, just says how important it is for us to continue to sustain this expansion. This has really come together just in the last—you know, we have had a long—as you can see from that chart, the labor market has improved steadily for 10 years now, but just in the last couple of years, it started to reach communities at the edge of the workforce. And it is just so important for to us continue that process for a couple of years. And that is why we are so committed to using our tools to sustain the expansion.

Mr. PERLMUTTER. Thank you.

My last question. The only graph that I saw that really is kind of perplexing and problematic is on page 31 of the Monetary Policy Report, and that is the one on trade policy uncertainty. And if there is a place that I think we as Members of Congress are concerned—and I think both Democrats and Republicans—it is on trade policy. And this graph, if I read it correctly, shows that it isn't just Members of Congress that are concerned about the President's trade policy; it is the people that you survey.

Can you tell me what that graph says?

Mr. POWELL. Well, it shows trade policy as quite elevated, and I think we know that. We, in our Beige Book, report discussions from around the country from all kinds of business and community folks, and I think trade policy has been elevated. And it has been particularly elevated since May, by the way. It spiked in May with those developments, and there is no question it is elevated.

Mr. PERLMUTTER. All right. Thank you for your testimony, sir.

Mr. POWELL. Thank you.

Chairwoman WATERS. Mr. Hollingsworth, the gentleman from Indiana, is now recognized for 5 minutes.

Mr. HOLLINGSWORTH. Good afternoon. I really appreciate you being here. Good morning, rather. I can tell time. Does not bode well for my questions, huh?

So I want to talk a little bit about your use of the word throughout testimony and the written testimony: "symmetry," "symmetrical," around 2 percent, right? And I think you, in your opening statement, refer to total PCE for the trailing 12 months at 1.5 percent core, 1.6 percent.

What do you mean by symmetry around 2 percent? What does symmetry mean to you?

Mr. POWELL. So in our longer run—statement of longer run policy goals and monetary policy strategy, we define symmetry to mean that the committee would be concerned if inflation were to run persistently above or below—

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. —2 percent. So it is really a symmetry of concern or of intention as opposed to outcome.

Mr. HOLLINGSWORTH. Right. And so over the last 10 years, right, it has run persistently below 2 percent. Does that imply a willingness or acceptability for inflation to run for a period of time moderately or slightly above 2 percent, given some of the disinflationary pressures from around the world?

Mr. POWELL. So under our current framework, all it says is that if inflation is above 2 percent or below 2 percent, we would look at that symmetrically, and we would use our tools to guide it back.

Mr. HOLLINGSWORTH. To 2 percent?

Mr. POWELL. To 2 percent.

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. And, of course, a central question we are asking as part of our monetary policy review is whether that is the right way to think about it when, in fact, all of the deviations from 2 percent have been below—

Mr. HOLLINGSWORTH. Correct.

Mr. POWELL. —not above.

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. And so inflation has been averaging less than 2 percent.

Mr. HOLLINGSWORTH. Right. Certainly, it is unmistakable, when you look around the world, right, there are a lot of traps associated with very low inflation and how persistent that seems to be around the world. I know that is some concern that you have expressed as well on many occasions, that we don't want to get mired in very low inflation. We want to have stable prices but stable around that 2 percent.

As you think about where the economy is today and think about where inflationary pressures are today, is there a desire to ensure we don't fall into the same trap by pushing the economy faster, being more accommodating in monetary policy to push that 2 percent, as you said, if it is symmetrical, to push inflation to that 2 percent?

Mr. POWELL. Well—

Mr. HOLLINGSWORTH. Through the indirect means that you have available to you.

Mr. POWELL. I am sorry?

Mr. HOLLINGSWORTH. Through the indirect means that you have available to you to manage inflation expectations going forward.

Mr. POWELL. I think we want inflation to be symmetrically at 2 percent and not at 1.7 and 1.8 percent, because that will ultimately—lower inflation will ultimately work its way into expectations and into short-term interest rates, and that will mean we have less, and plus—so we really do want to have inflation symmetrically at 2 percent.

Mr. HOLLINGSWORTH. Right. And so one of the things that you talked about is people's expectations for future inflation, which have been very much anchored by their recent history with inflation, right? That recent history over the past 10 years has been below 2 percent inflation. And in order to move people's expectations going forward, they need to experience slightly faster paces of inflation. I think most research continues to indicate that recent experience informs expectations going forward.

So I just wanted to come back to and better understand what you were saying around that symmetrical. Like, the goal is to push inflation up to 2 percent or have a willingness or tolerance up to 2 percent, and if it should run above 2 percent, to be able to bring it back down to 2 percent.

Is that what you mean by that?

Mr. POWELL. Well, I am going to draw a distinction between. Our current framework, the one I described for you where we would always be pushing back for 2 percent, we are looking at different ways to—and that, by the way, that framework seems to have achieved errors on one side, which are consistent with the framework.

Mr. HOLLINGSWORTH. Correct.

Mr. POWELL. And we are asking the question whether that it the right way to keep doing it or whether we should be looking at something which produces more symmetric outcomes. We have not made that decision.

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. That is one of the fundamental things we are looking at as part of this.

Mr. HOLLINGSWORTH. And one of the dialogues I know that we have had in the past, and I certainly want to continue especially publicly, to encourage you to continue that research and developing that framework. I think it is really important, given all the pressures that we see around the world in some of the other developed countries that have fallen into this very low, persistent low inflation, that we should really think about how we continue to manage what we are doing in monetary policy and reflecting those concerns. So I appreciate the work that you are doing.

One last question. What have we learned over the past 10 years about the limits of monetary policy, and how do those limits inform what you believe the next steps might be with regard to monetary policy? If you can answer that broad question in 12 seconds.

Mr. POWELL. I will. I would say it is not a good thing to have monetary policy being the main game in town, let alone the only game in town. Fiscal policy is very powerful and more powerful, and it is—there come times, for example, after the financial crisis, where you need fiscal policy to really lift the economy.

Mr. HOLLINGSWORTH. Right.

Mr. POWELL. So it is not a good thing to have monetary policy be responsible exclusively for things and it shouldn't be, and I—

Mr. HOLLINGSWORTH. Well, I thank you for being here and thank you for your great work.

Chairwoman WATERS. Mr. Himes, the gentleman from Connecticut, is now recognized for 5 minutes.

Mr. HIMES. Thank you, Madam Chairwoman.

And thank you, Mr. Chairman, for being here. Good morning. Thank you for your testimony. I have two questions, one on monetary policy, and one on the broader regulatory environment around the banks.

Let's start with, just a couple of minutes, though, let's wake up the room with a discussion of interest paid on excess reserves. The Fed's policy obviously changed pretty dramatically in 2008. If the numbers I am reading are correct, excess reserves today are in the neighborhood of $1.5 trillion. I have a couple of sort of intuitive, at least, concerns with that. That obviously has a pretty dramatic effect on liquidity in the system. It creates a business model for banks, obviously, who can essentially get risk-free money from the Fed in a way that is not available to my constituents.

But I suppose what really concerns me in the context of monetary policy is, I am sure you are aware of a report that was published by the Minneapolis Fed in which the individual who wrote it—and I will just quote the report: "What potentially matters about high excess reserves is that they provide a means by which decisions made by banks—not those made by the monetary authority—could increase inflation inducing liquidity dramatically and quickly.”

So my question is—at a minimum, if that is true, that could be a significant impairment of the FOMC’s ability to actually control monetary policy. So my question is, what is the future of the policy with respect to interest paid on excess reserves?

Mr. POWELL. I am not familiar with that paper from the Federal Reserve Bank of Minneapolis. But as I am sure you are aware, during the financial crisis, we bought a lot of assets; and the offsetting liability, the way we paid for it is by issuing reserves. At the same time, we vastly increased the required liquidity that largest financial institutions have to hold, vastly increased that; and many of them choose to hold reserves. So demand for reserves, even after the balance sheet shrinks, is so much higher, and we are actually trying to find what that demand is and it might be somewhere a bit below the current range that it is in.

Mr. HIMES. But so the demand obviously is, to some extent, driven by the rate that is paid on those reserves. You control the demand for reserves above and beyond required reserves.

Mr. POWELL. To some extent we do, though, but banks choose to hold—they have to hold—they have to hold a certain quantity. They could also hold treasuries, but they like reserves because they are highly liquid, and it is not—they pay the same as treasuries, by the way, roughly the same.

So in terms of IOER, though, the thing is in our framework, in our chosen framework of conducting monetary policy, IOER is the critical rate. It is how we manage. It is the administered rate. That is how we manage monetary policy. We have been doing that for really 10 years now, and we decided earlier this year that we would remain in that system.

Getting to a system where, instead of using an administered rate, you manage the quantity of reserves on the edge of scarcity and set the price that way, which is what we did, would be very, very tough, given the level of demand for reserves.

Mr. HIMES. As you know, there was a fairly dramatic policy shift in 2008. Some have said that the amount of interest paid on excess reserves was well in excess of what Congress envisioned in the time in the legislation of 2006. Is this now a status quo monetary policy tool that the Congress should anticipate works in conjunction with your control of other rates?

Mr. POWELL. Absolutely. This is our principal tool for implementing monetary policy is interest on excess reserves.

Mr. HIMES. Okay. Let me shift, just because time is short, to a broader regulatory question. We have heard from CEOs of banks, we have heard from the Vice Chairman and others that, generally speaking, the banking system is safe and sound, well capitalized.

When the CEOs of the large banks were in front of this committee a couple of months ago, they identified two things with some consistency as being of concern. One was leveraged lending, which is a bit odd, because most leveraged loans get put into CLOs which then get taken outside of the banking system. But interestingly, they also said shadow banking. Now, by definition, you don’t have a lot of control over shadow banking, but given the consistency of that, given the fact that an awful lot of the risk from leveraged lending, which they identified as risky—concerning, I should say, not risky—concerning, how are you thinking about potential risks bubbling up in the broader shadow banking system?

Mr. POWELL. Well, and particularly on leveraged lending, we have culled out the risk. The risk is not so much located in the banks; it is located, as you know, in CLOs, mutual funds, hedge funds, insurance companies, and all those things. So and it is not—it is not subject—those vehicles are not subject to runs in the same way that precrisis banks were and really no longer are. So the systemic risk question is not a prominent one. It is more a macroeconomic question.

So if there are—if the corporate sector gets very highly levered, then in the event of a downturn, you will see companies that are—that have to lay off workers and stop spending and that kind of thing. So it could be a macroeconomic multiplier. This is a project that the Financial Stability Oversight Council is working on now. And also, the Financial Stability Board globally is looking carefully at leveraged lending and we think it is something that requires serious monitoring.

Mr. HIMES. Thank you. I am out of time.

Thank you, Madam Chairwoman.

Chairwoman WATERS. Mr. Gonzalez, the gentleman from Ohio, is now recognized for 5 minutes.

Mr. GONZALEZ. Thank you, Madam Chairwoman.

And thank you, Chairman Powell, for being here today.

First, I want to thank you on your transparency and all the data that you provide. I think there is a sense that some of these decisions may be made behind closed doors, but I think when you are transparent and open about what the data is that you are looking at, I think that helps. It certainly helps me to understand.

I want to kind of summarize two things that you have talked about with respect to all the data you are looking at currently in interest rate policy. And if I think I am understanding you correctly, I am hearing that trade uncertainty and persistent low inflation short of our 2 percent target are kind of the two biggest bogies for you, so to speak. Am I summarizing that correctly—

Mr. POWELL. That is correct.

Mr. GONZALEZ. —based on the current situation?

Okay. I think we did a nice job covering the importance of passing USMCA to help, from a certainty standpoint. You didn't weigh in on the deal itself, but it certainly makes things more secure or more certain.

On the inflation side, it seems to me that in a world where we are still short of our target and we have trade uncertainty, and those are the two biggest factors you are considering, that raising rates would certainly be irresponsible. I would argue for lowering them, but would it be fair to characterize, based on what we are seeing on those two factors specifically, that a strong case could be made for lowering? And not to commit you to that, but is that sort of where things seem to be headed?

Mr. POWELL. So, yes. As I mentioned, we think that uncertainty around trade policy and also global growth, it is not all down to trade policy. There is something going on with growth around the world, particularly around manufacturing and investment and trade. And so that uncertainty is, we think, weighing on the domestic economy. It is starting to show up a little bit, we think, in business sentiment readings, which have moved down, and also in weaker business fixed investment.

And then as you pointed out, the other piece of it is inflation. We see the risk of a more prolonged shortfall of inflation from our target. That is not something we desire. It is something we want to avoid.

Mr. GONZALEZ. So you want to encourage a more accommodative policy?

Mr. POWELL. And those things do—many on the committee see those things as strengthening the case for a somewhat more accommodative policy.

Mr. GONZALEZ. Thank you.

And then I want to shift to the balance sheet a little bit. We haven't really talked about that. So in January, you announced a major shift—I thought it was a major shift—in terms of how we were going to manage the rate going forward, which was the shift towards administered rates. We were going pause the drawdown of the balance sheet.

Can you kind of walk me through the logic on that a little bit? My concern here is, are we going to still be prepared to handle another financial crisis if that sort of thing were to happen while we have an expanded balance sheet? And in the long run, do you see us moving more towards going back towards open market operations, which historically has been how we did this?

Mr. POWELL. So, actually, since the QE era began, reserves have been superabundant, and we haven't set monetary policy really by—

Mr. GONZALEZ. Right.

Mr. POWELL. We took monetary policy to zero and it couldn't go any lower, and so we didn't—we never—so we didn't have to have scarce reserves. We only had to have scarce reserves when we lifted off in December of 2015, and we didn't. So we used the administered rates, which is IOER. So we have been using them a long time. It wasn't really a change. What was new—you are right about this—what was new is we, after having thought about it really for years, we said, we decided after much deliberation that this would be our permanent framework. We think it works well. We think it has a lot of benefits.

In terms of room for further quantitative easing, that is just what we would be buying would be treasury securities. And the manufacturers are busy, as I understand it. There are plenty of them out there, and it would be no shortage of them to buy. There are questions about the efficacy and there is a lot of research that has gone on in how much quantitative easing affects interest rates and thereby the economy, but I don't see the size of our balance sheet as limiting our ability to buy more, just as a practical matter.

Mr. GONZALEZ. Okay. Thanks.

And then with my last sort of question, when you look at Libra specifically, I see it as three different things. I see it is a Libra, which is a currency; Calibra, which is the wallet—they seem to desire to be a bank—and then the Libra association itself. As we are evaluating how to approach this, one, are those the three buckets that we should be looking at; and, two, what gives you the biggest concern?

You sort of said let's pause it broadly and maybe—I am running out of time. So we will submit this in written questions, but any feedback you have on that will be greatly appreciated by this committee.

Thank you. I yield back.

Mr. POWELL. Thank you.

Chairwoman WATERS. Mr. Lawson, the gentleman from Florida, is now recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman.

Mr. Powell, welcome to the committee.

Could you elaborate, how did the top 1 percent of U.S. families own 40 percent of the wealth in this country? How did we get to that particular point? Do you see any kind of balance coming in the future?

The top 1 percent own 40 percent of the wealth in America. We say we are a very rich country compared to other countries. But how do we get to the point where 1 percent own 40 percent of the wealth in this country?

Mr. POWELL. What I have seen and what I have mentioned in my testimony that is troubling is a couple of things. First, median incomes and lower incomes have stagnated compared to those at the high end. So there was a time not so long ago when—you know, there is always a disparity between the wealthiest and the least, but it was nowhere near this large. So what has happened is those people in the middle and at the lower end of the wage and wealth spectrum have seen their wealth and wages move up but much less than those at the top. And that is—that is troubling.

The other thing that is troubling, sort of a separate issue, is lack of mobility. So the chances of being born—if you are born in the bottom 20 percent of wealth or of anything, you can calculate what are the chances empirically that you will move into the middle quintile or the top quintile, and they are actually lower in the United States than they are in many other similar advanced economy democracies.

These are troubling things. I would personally put them down to a combination of technology, globalization, and education really. It comes down to the education system needs to produce people who can take advantage of advancing technology and globalization. And what you have seen is a stagnation in educational attainment in the United States relative to other countries beginning about 40 years ago, and that has been, I think, the—an underlying force that is driving this phenomenon.

Mr. LAWSON. Okay. Another question is, recently in June, let's say, Ontario in Canada, minimum wage went to around $13 and, let's say, 25 cents an hour. And earlier you stated that our minimum wage at the Federal level is around $7 and maybe 25 cents. It hasn't been changed since maybe 2009 or something of this nature. And in your testimony, you said that it is up to Congress to really make that happen. And there has been a lot of discussion on whether what is going to happen to businesses and so forth.

The reason why I say that is, in 2020, in Ontario, Canada, they will go to $15-plus per hour for the economy. Do you see—and you talked about it before—by gradually increasing the minimum wage in this country is going to affect businesses to the point that they will be closing?

Because what you see mostly at the end of the year is a lot of these businesses have a very big surplus to invest and pay taxes on. And so what is the difference in passing those increases to the employees, instead of giving it back to the Federal Government, doing it to—giving the money to some charity? How—do you weigh in any on the minimum wage increase as far as the stability of the economy?

Mr. POWELL. We don't really take a position on minimum wage, and the reason is that there is a lot of research and it shows costs and benefits. It tends to show costs and benefits, depending on what you assume and how fast you move. I think how quickly they move up is an important indicator. But when you raise the minimum wage, some people lose their jobs, and some people benefit. They get higher wages. And so you—I think you can look at a range of studies and they will come up with as many different economists that study this will have different answers and you can weigh that and that is a tradeoff that you make.

We have never taken a position on minimum wage. It is the classic thing for a legislature to do and not for us to do.

Mr. LAWSON. All right. One quick question. Do you ever look at the way credit card companies increase their interest and finance charges compared to the way the economy's going, credit card companies?

Mr. POWELL. The way credit card companies, sorry, do what?

Mr. LAWSON. Increase their finance charges compared to the way the economy is going. Like, the economy is stable right now, but interest rates—I know I have to close—some of the credit card companies are 28, 29 percent and so forth. I might have to send you some information on that.

Mr. POWELL. I would be happy to follow up on that with you.

Mr. LAWSON. Okay. Thank you.

Mr. POWELL. Thank you, Mr. Lawson.

Chairwoman WATERS. Thank you.

Mr. Rose, the gentleman from Tennessee, is now recognized for 5 minutes.

Mr. ROSE. Thank you for being with us today, Chairman Powell. I am a vocal advocate for putting our Federal Government on a more sustainable fiscal path. Our Federal debt now stands at $22 trillion, more than $22 trillion. Interest on that debt is a big Federal spending item amounting to about $360 billion last year. That was approximately 8 percent of all Federal spending. Interest on the debt is becoming the fastest rising element of our Federal budget. Our net interest expense could increase substantially if and when interest rates eventually return to more historically typical levels. It seems possible that we might even soon spend more on interest than or our national defense, because we have to in order to service our debt.

The President's own budget from 2018 forecasted that net interest expense will exceed defense discretionary spending by 2026. It looks like the Federal deficit this year will exceed $1 trillion, as it will in the next several years after that, based on current predictions. It is hard to see how the Federal Government can issue that much new debt without further driving up interest rates.

One of your predecessors once said: There is no question that as deficits go up it does affect long-term interest rates. He continued: A rise in the debt increases the amount of interest expenses which, in turn, increases the debt still further, and there is an accelerating pattern after you reach a certain point of no return.

Could you talk with us today a bit about some of the potential risks to financial stability posed by our current fiscal path and, in particular, current Federal spending?

Mr. POWELL. I think the United States Federal budget is on an unsustainable path in the sense that spending is growing faster than the economy, and ultimately that becomes unsustainable at some point. I think we are racking up greater and greater debt. I say the debt is growing faster than the economy. Debt as a percentage of GDP is going up; and is that unsustainable, I meant to say.

It is something that we need to get back to and assess. And it is not up to us to say how to do that, what combination of spending and taxes. That is, of course, totally the province of the legislature, but it is something that is important over the longer run. And what will happen if we don't do it is that we will wind up spending more and more on interest and less and less on the things that we really need to spend money on, educating our grandchildren and all of the important things that we do for the benefit of the public with Federal tax dollars.

Mr. ROSE. What are your views about the Federal Reserve's role in monitoring financial stability risks posed by the deficits?

Mr. POWELL. We do have a broad role in monitoring financial stability. I would say the four key pillars we look at are leverage in the financial system, leverage away from the banks, funding risk, and asset prices. We don't really think of longer run fiscal unsustainability as a financial stability risk. It is more of a—you know, we are the world's reserve currency. We keep being able to borrow. My predecessor, who predicted that more debt would lead to higher interest rates, would be surprised to see that with the debt that we have, we still borrow at very low interest rates because we are the world's reserve currency. So we haven't seen higher rates, but to the extent we go on raising debt to GDP, we will just wind up spending more and more money on interest and less on the things we need.

Mr. ROSE. If you will, talk about the impact of higher interest rates, if, in fact, deficits lead to higher interest rates, on the stability of the financial system in the aggregate.

Mr. POWELL. I think down the road at some point, rates—I mean, ultimately there is a price to pay here in higher rates. That has to be true at some point, although, Japan has far higher debt to GDP than we do and pays even lower interest rates. So it is hard to say but, ultimately, I think the debt that we are racking up is really going for, essentially, current consumption and we are passing the bills on to future generations.

I think our generation is entitled to spend whatever money we think we need for ourselves during our lifetimes, but we really ought to pay for it. We ought to be paying for it, rather than passing the bills along to the next generation.

Mr. ROSE. And finally, in 3 seconds, is there a point of no return?

Mr. POWELL. Somewhere way out in the future there has to be, I think, in principle.

Mr. ROSE. I yield back.

Chairwoman WATERS. Ms. Tlaib, the gentlewoman from Michigan, is now recognized for 5 minutes.

Ms. TLAIB. Thank you, Madam Chairwoman.

Thank you, Chairman, for coming before our committee. As you know, I represent Michigan, which faces strong headwinds in the current climate right now, and the auto industry is at a disadvantage with the current trade war with China. In addition, automakers have been laying off workers as they adapt to products to fit their emerging technologies and market trends, and really at the core is corporate greed.

But what we saw between, I think, in Wayne County and the Detroit area, we saw unemployment rose between April 2018, and April 2019, from 4.2 percent to 4.6 percent. Given that Detroit area still hasn't fully recovered, why should we believe that the Federal Reserve has the tools to prevent another deep downturn?

Mr. POWELL. Let me say, we do understand that we—when we talk about national level unemployment rates, we completely understand that that is not true in all parts of the country, in all regions of country, in all demographics of the country, and we try to—when we do this at the FOMC, we always have presentations that call out those disparities.

And ultimately, if we were to face another—your question really is, do we have the tools to address another severe downturn? We don't expect a severe downturn. If we had one, we would use our tools as aggressivity as we needed to to do that, and that would include all the tools in our toolkit, including interest rates, forward guidance, the balance sheet in various forms, and whatever else we could devise. And I do think our tools would be adequate.

Ms. TLAIB. So if we had another recession and interest will be lower, cut to zero, and then we flounder, should we expect that it will take another 10 years for unemployment to recover? Should the people in my district be expected to wait a decade for a job? We see this shift in certain parts, not only in Detroit, but even in the Wayne County community surrounding the city of Detroit.

Mr. POWELL. I would think not. So remember that the Great Recession was the most severe in a very long time; and we saw unemployment go to 10 percent. We hadn't seen that since the early eighties, and I don't—you are starting now at 3.7 percent. If you take a typical recession, a more typical recession, not like the Great Recession—

Ms. TLAIB. Yes, but we are still at 5 percent in my district. So what additional tools or authority do you need to prevent another downturn? You talked about tools and so forth. What specifically? And, again, direct us to what we can do to support making sure that our families are able to provide for themselves.

Mr. POWELL. I think we have the tools we need. I think what we would hope for is support from fiscal policy, which is to say support in fiscal policy that would support monetary policy in a downturn.

Ms. TLAIB. Well, in the last recession, the Feds stepped in to ensure that the corporations borrowing in the commercial paper market would get—would still get credit. When governments in places like Detroit or Puerto Rico cannot issue bonds at reasonable terms, that has real consequences, like the inability to provide safe water in my district, for instance, a lot of infrastructure issues.

If the Fed is responsible for ensuring that businesses have access to credit through the commercial paper markets, why isn't it equally important to ensure that State and local governments have access to credit?

Mr. POWELL. We don't have authority, I don't believe, to lend to State and local governments. I think we tried—

Ms. TLAIB. That could be a tool.

Mr. POWELL. I don't think we want that authority. I think we want—I think that is something for Congress to do. I think we don't want to be picking winners and losers. We want to be helping the economy broadly to the maximum extent possible. In the financial crisis—

Ms. TLAIB. Well, what is the difference between corporate—we do it for corporations. Why is there a different standard? And this is—and genuinely really curious.

Mr. POWELL. So what you had was you had credit markets, for example, that financed auto receivables and commercial paper and things like that, that were failing and breaking down, and the economy was grinding to a halt. So we devised programs to support, to reopen the capital markets in a way without regard to who the borrowers were or picking a particular kind of borrower. We just—we had to do that, and that is really what got the economy back on track.

Ms. TLAIB. But we could do something similar in the State and local governments.

Mr. POWELL. We can talk about this.

Ms. TLAIB. I know. I come from a city, the first, I think, ever to file for bankruptcy. The people who were actually directly hurt and still continue to hurt are pensioners. We still haven't been able to really—you know, the 7.2 miles of downtown and some of these surrounding neighborhoods have been able to get investments, but you still see a deterioration and it is directly tied to unemployment.

Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you.

Mr. Steil, the gentleman from Wisconsin, is recognized for 5 minutes.

Mr. STEIL. Thank you very much, Chairwoman Waters.

And thank you for being here, Chairman Powell. In your opening remarks, you stated that you strongly support the maximum employment mandate and that, overall, the national labor market is healthy. You noted the unemployment rate was 3.9 percent in December. It has ticked down to 3.7 percent in June. It is actually 2.8 percent in my home State of Wisconsin. You also noted that employers are hiring lower skilled workers and training them. I view this as a quite positive step. Also in your opening remarks you identified key risks that you are tracking, including Brexit, trade instability, and rising debt.

What I did not hear you bring up is a proposed $15 national minimum wage that some of my colleagues are advocating. As you may know, the CBO recently analyzed this proposal to increase the minimum wage. The report found that a Federal minimum wage increase to $15 an hour may cost 1.3 million Americans to lose their jobs, and in a worst-case scenario, 3.7 million Americans could lose their job. That is even more than the entire civilian workforce in the State of Wisconsin, which is 3.1 million workers.

How would the Fed respond to the impact of a $15 minimum wage both on inflation and real wages, as well as the precipitous fall in employment outlined in that CBO report?

Mr. POWELL. So we see the—the question of minimum wage is one that is squarely in your court and not ours. There are many, many studies of minimum wages and their effects on the economy. There doesn't tend to be a consensus, but they do all tend to show some degree some people will lose their jobs and other people will benefit.

And so if I were sitting in your chair, I would be looking at 20 of these studies, and I would try to get a sense of what the right tradeoff is and whether you would be willing to make it. It is not a question for the Fed, and without knowing, we just don't take a position on that, and I imagine that it would be challenging to make an aggregate assessment without sort of taking a point estimate in what is a highly uncertain range of possibilities.

Mr. STEIL. I appreciate that.

Could you even comment if the discussion on the $15 minimum wage would create the type of uncertainty that may slow hiring?

Mr. POWELL. I am just not going to—it is really not for us to be a referee on the question of the Federal minimum wage. We have not done that, and it is just not something we are going to do.

Mr. STEIL. Fair enough.

Let me shift gears, Chairman Powell. I would like to ask you about an issue that has been a major focus for many members of this committee, the international insurance capital standards. In previous appearances, you have assured us that the Fed wants to negotiate an international agreement that works with our regulatory system. As you know, we expect the final version of the ICS to be completed at an International Association of Insurance Supervisors meetings this November.

Can you comment as to what instructions you are providing to your staff who are negotiating the ICS to ensure that U.S. regulatory approach is formally recognized?

Mr. POWELL. We coordinate very heavily with the Office of Insurance over at Treasury and very much with the State insurance regulators, which is where a lot of the regulation happens in our system, really all the regulation, and I think we are all resoundingly agreed that whatever capital standard is adopted has to work for the U.S. system. The U.S. has a particular system of regulation for insurance companies based at the State level, and anything that gets adopted internationally simply has to work for the United States system or we can't adopt it.

Mr. STEIL. Is the Fed prepared to then oppose the ICS if it was unsuccessful in achieving formal equivalency for the U.S. regulatory system?

Mr. POWELL. Yes, I think we are clear that whatever is adopted has to work for our system.

Mr. STEIL. I appreciate that. I appreciate your time today.

And I yield back. Thank you.

Mr. POWELL. Thank you.

Chairwoman WATERS. Mrs. Axne, the gentlewoman from—where is she from—is now recognized for 5 minutes.

Mrs. AXNE. Thank you, Madam Chairwoman. And thank you, Chairman Powell, for being here. And I am loud and proud about Iowa, the great State that it is.

Chairman, you said that in February, that income inequality would be our economy's biggest challenge for the next 10 years, and I couldn't agree with you more. You also said that income decreased for people in the middle and bottom end of the income spectrum, while growth at the top has been very strong, and that is something I hear a lot when I am talking to folks in Iowa.

And to make that disparity even more clear, the Fed recently put out its Distributional Financial Accounts showing that over the last 30 years, the total wealth of the top 1 percent has increased by more than $21 trillion, while the total wealth at the bottom half of Americans has actually gone down.

My colleague, Mr. Lawson, asked why this was happening. I would like to expand on that and ask you, is that inequality something that should be considered when setting monetary policy?

Mr. POWELL. We try to inform ourselves about what is really happening in the economy. That is just—that is a lot of what we do. And so that is—and this is an important factor. We don't actually have the tools to directly address these issues. I think they are more around education and skills.

The principal way we can get at this issue, though, really is to take seriously Congress' order that we achieve maximum employment. Because as you can see, I assume you can see in your communities that the expansion is now reaching groups that are at the marginal labor force, and that is because we are pushing ahead and having a very long expansion with quite low unemployment and that is really benefitting these people at the margins.

Mrs. AXNE. So you mentioned a couple of what, I believe, are possible solutions. You said education and training, I believe. Can you expand on that a little bit, or what other solutions do you see to help us with this inequality?

Mr. POWELL. I guess my underlying model of the problem is that there is no shortage in the world of good jobs. We just have to produce qualified people, qualified workers who can live at the standard of a wealthy country and do the work they can do, and that means better education. It is easy to say; it is very hard to do. But we need workers who can compete with the other advanced economies for the good jobs. It is manufacturing jobs. It is a lot of service economy jobs, and it is not easy to do. Fixing the educational system and improving it is a very challenging thing. I spent no small amount of time on that earlier in my life.

But I think that, ultimately, that is it. At the end of the day, the country is its educational system, and the people who are in the country, they are a product of that system, and we need to get ours producing people who can compete in the global economy, and I think that is at the bottom of the pile. That is an important driver.

Mrs. AXNE. I appreciate that.

Let's pivot slightly to look at regional differences. Iowa's per capita income is more than $1,500 below the national average, while New York's is almost $5,000 higher. I am concerned that too much of the discussion focuses strictly on the rural-urban divide, and I certainly know that. My district has rural and urban in it. But I would also like to raise the issue of regional shifts within the economic growth moving to the coasts.

Could you talk a little bit about how that income inequality that you have mentioned as one of our biggest challenges interacts with regional inequality?

Mr. POWELL. Yes. We actually had a box in the February Monetary Policy Report on disparities between rural and urban, if that goes to your question, and they have gotten worse over time, since the financial crisis. And, there are just these underlying drivers that we are not at all sure of. There is no widely accepted explanation, but younger generation appears to want to live in cities and so they are moving into cities. They are moving out of rural areas, and it is leading to—in other words, people who can move to cities do, and they get—because that is where the jobs are and that is where the growth has been. It is a phenomenon that we have been seeing for some time, and it has gotten worse in the last decade.

Mrs. AXNE. So do you have any particular solutions that we should be looking at?

Mr. POWELL. I don't, unfortunately.

Mrs. AXNE. Okay. Well, fortunately, several of us from these rural areas are working on this, so I am hoping that we can make an impact there. But I thank you.

One thing that you didn't quite get to, you mentioned rural/urban again, but a little bit more about the regional shift. So, we have a lot of opportunity in States that are in the Midwest, but we don't have as much access to that opportunity that some of our coastal areas have. What are your solutions there?

Mr. POWELL. I don't know that we have those tools. I will say we have researchers who are doing a lot of good work in this area that we would be happy to connect you with them. I would be happy to connect you with them.

Mrs. AXNE. Appreciate that.

Mr. POWELL. That would be able to help.

Mrs. AXNE. Thank you.

Mr. POWELL. Thank you.

Chairwoman WATERS. The gentleman from Virginia, Mr. Riggleman, is now recognized for 5 minutes.

Mr. RIGGLEMAN. Thank you, Madam Chairwoman.

Thank you, Chairman Powell, for appearing here today. It is good to see you, sir.

We were talking little bit earlier about fiscal policy—and one of the good things about going near the end is I get to hear a lot of good things—talking about fiscal policy and trying to prevent a downturn. Had a couple of questions.

We talk about incentivizing investment, sort of for the average American. And looking at policy, just some thoughts about, looking at, is it higher taxes, lower taxes? Is it the USMCA or something like CECL that we have discussed before? What are some of the quick take on some of the policies that would help as far as economic growth for the average American? And I just wanted to get some of your thoughts on that.

Mr. POWELL. I think, generally, we need policies that will support labor force participation, policies that will qualify people to hold jobs and progress through their careers. That is a big thing. That is a place where the United States lags other comparable economies, and it is really something we need a national strategy to work on is how can we raise labor force participation? It won't be any one thing; it will be a range of things.

The other piece of it is productivity, and productivity is really a combination of a couple things. One is incentives for investment and technology which drives productivity. I think basic research by the government has actually been an underlying driver over long periods of time. In addition, it is skills and aptitudes of the workforce, which we have been talking about. It is that more productive workers have more skills and more training and that kind of thing.

You can break it down into labor force participation and productivity. Those are the two things that really determine the country's longer run growth, of course, population growth as well. But assuming a level of population growth, it is labor force participation and productivity.

Mr. RIGGLEMAN. Thank you. I think when we talked to you, you said 62.8 percent of the people really probably support a hundred percent of the population, which I thought was a very interesting stat when we discussed that.

I also want to commend you and thank you and your colleagues at the Fed for the very substantial support, guidance, and collaboration you provided to the private sector in the area of faster payments. And this successful public-private partnership has been critically important, I think, in making real-time payments a reality in the U.S. So thank you for that.

And I also want to commend the Fed for its proposal to facilitate private sector real-time payment solutions by providing additional liquidity services, which I understand can be effectuated by extending the operating hours of the Fedwire Funds Service.

But I do have some concerns, Mr. Chairman, regarding the other part of your proposal that envisions the Fed itself entering the market for faster payments as a direct competitor of the private sector. And my understanding is that the Fed seeks to justify this potential action, in part, on perceived need for resiliency, which I believe raises several important questions.

And I would say, first, it is the notion that having two systems would provide resiliency necessarily assumes that every bank in the country or at least an overwhelming majority of them would have to connect to two systems—the private sector system and the yet-to-be-built government-run system—and this is just based on my experience and big data when you are talking about what I have had to do in the military with electronic warfare and looking at this and actually trying to interoperate systems. And I think this would create enormous inefficiencies and impose needless costs on the American taxpayer in the private sector, unless, of course, the Fed-run system would be fully interoperable with all the private sector alternatives.

So my question is, if I am a community banker in Virginia where I am from and I participate on the Fed's system, what guarantees can you give that community bank today and the two systems will be fully operable? And if there are none, then what is the purpose of having a second government-run system?

Mr. POWELL. So as I think you know, this was based on a proposal from the Faster Payments Task Force, which had very broad representation, including the smaller banks who were quite supportive of this idea. We asked for public comment on this. We are reviewing that comment. We got, I don't know, 400 comment letters or 900 or something, a lot of comment letters, and so we are in the middle of that decisionmaking process.

In terms of interoperability—and, again, it was the community banks who strongly pushed the Fed to move forward with this. In terms of interoperability, it is a good issue, a good question, and we will need to work to make that happen at least to the level that it is functional. It may not be perfect, but we will certainly be—if we move forward with this, we would be certainly looking at that as a characteristic to achieve.

Mr. RIGGLEMAN. Thank you. And I think it goes back to resiliency for me, and I know—and I think it is a concern about resiliency that I had and we had our discussions here in committee is that if there are concerns about resiliency—and it is just based on my experience in the private sector when it comes to big data—couldn't you probably address those concerns through the regulatory and supervisory authority that already exists in your space? And that is what I was getting to here is we are talking about resiliency with the multiple data centers and redundant systems that actually could be a problem with inoperability.

Do you think resiliency could be something that is a function of what you are doing right now in keeping with one sort of faster time payment system?

I think I am done.

Chairwoman WATERS. The gentlewoman from Massachusetts, Ms. Pressley, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chairwoman.

And thank you, Chairman Powell, for appearing before the committee today.

The Federal Reserve can do more to support the needs of hardworking American families. As it stands, working families wait days at a time just to have their checks cleared. And when you are living paycheck to paycheck and rent is due the first of the month, there can be no room for error. As the central bank in America, the Federal Reserve has a responsibility to speed up the process of clearing payments.

I want to bring up a report that was issued 2 years ago, the Faster Payments Task Force. In that report, the task force called for a payment system in the United States that is faster, ubiquitous, broadly inclusive, safe, highly secure, and efficient by 2020.

Mr. Chairman, 2020 is less than 6 months away. Yes or no, will we have a faster payment system by then?

Mr. POWELL. No. We are working on it, but we are not going to be done by 2020, I would say, but we are getting there.

Ms. PRESSLEY. The task force also concluded that broad access to settlement services will help level the playing field and enhance competition among providers of faster payment services. Yes or no, do you agree that this is an issue of accessibility and equality?

Mr. POWELL. I do agree with that. That is one of our principal motivating factors.

Ms. PRESSLEY. Okay. And so would the Fed like to see a world where all Americans have access to faster, secure payments?

Mr. POWELL. Yes, we would. That is why we have been working on—you mentioned that report. This is a project that has been going on for 5 years and goes on.

Ms. PRESSLEY. Right. If you can instantly clear payments between the accounts of commercial banks held within the Fed, why not consumers writ large? What is the delay?

Mr. POWELL. Well, it is not a—it is a service that hasn't existed. It has existed for banks. Immediately available funds has existed for banks. We don't have plenary authority over the payment system as some other central banks do, but we convened a group of people and institutions maybe 5, 6 years ago and we said let's work toward this. And so that is—the report you saw was, I think, the last report that we issued, and we are now working to implement some of the recommendations, including the one that I was—

Ms. PRESSLEY. Yes, Mr. Chairman, just trying to better understand the delay in the implementations of this report.

Have you received any pushback from any businesses, particularly the credit card industry?

Mr. POWELL. I think we are determined to do what we see as the right thing. We are not looking—

Ms. PRESSLEY. Have you received any pushback specifically from the credit card industry?

Mr. POWELL. I personally—I have not personally, no. I think that—

Ms. PRESSLEY. Okay. So—

Mr. POWELL. —businesses to advocate for their own well-being, though.

Ms. PRESSLEY. Sure. Do you agree that our country's continued lack of a real-time payment system is being exploited by credit card companies like Mastercard and Visa and also outside of that industry by Facebook to create a digital currency?

Mr. POWELL. I wouldn't want to use those terms, no. I think people operate in the environment that they have. We are trying to create an environment that does have faster payments broadly available, and we think that is a better environment, for the reasons you articulated.

Ms. PRESSLEY. Yes. I really do see a faster payment system simply as a public good, and the lack of action here creates a real void in the lives of consumers everywhere and these voids are increasingly being exploited by companies looking to operate as financial institutions without the guardrails.

Facebook's Libra is being trotted as a solution to the unbanked. However, I struggle to see how ceding the functions of a central bank to a private company solves an issue of resources. Instead, we should be using preexisting infrastructure to ensure that all people have the ability to safely and securely and with no cost access and move their money 24/7, 365 days a year.

So, again, let's not lose sight of the plot, Mr. Chairman, and the plot is the American people. And I hope to see your organization become more reflective of the lived experiences and the everyday needs of Americans.

Thank you, and I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Wisconsin, Mr. Duffy, is now recognized for 5 minutes.

Mr. DUFFY. Thank you, Madam Chairwoman.

Mr. Chairman, up on your left-hand corner. Welcome.

One of my colleagues in their statements said that the President has implemented harmful economic policies. In your assessment, I think you said the economy is doing quite well; is that correct?

Mr. POWELL. Yes. I would say the economy has performed—I said reasonably well so far this year. Yes.

Mr. DUFFY. Right. Last quarter was 3.1 percent growth. Pretty great, isn't it?

Mr. POWELL. If you take it through the middle of the year, we will have growth probably in the mid 2's. And yes, that is solid performance.

Mr. DUFFY. Okay. Great.

Where I come from, obviously, we like our rural communities to grow as well as our urban communities. But by and large, the biggest complaint that I hear from my employers is that they don't have enough labor. They can't get people in to their shops to fill the positions that are open. And then there are some that will come in, and they don't actually want to work, which leads me to immigration. But I am not going to go there with you. We have some problems in immigration.

But there is competition for labor. And when there is competition for labor, don't you see the salaries rise, hourly wages rise when there is competition for labor?

Mr. POWELL. Yes.

Mr. DUFFY. Or am I wrong on that?

Mr. POWELL. It is very interesting. We have seen wages moving up. And we do hear lots of reports like what you just said about labor shortages and can't find qualified people. We would have expected to see wages move up more. They are moving up at a healthy level, on average, a little more than 3 percent. That is a good thing.

But, yes, you would want a tight labor market to produce solid wages.

Mr. DUFFY. Is this a fairly tight labor market?

Mr. POWELL. It is by almost every measure. I would say that—the thing that doesn't really show the tightness through is the wages, which could be higher.

Mr. DUFFY. In a tight labor market, if I have a person who is making 12 bucks an hour but they are actually worth $15 an hour, what do you think happens?

Mr. POWELL. In economic theory, they should be earning $15 an hour. If their marginal product is $15—

Mr. DUFFY. They will leave one job and probably go to someone else that will pay them 15 bucks an hour, right?

Mr. POWELL. They will. Yes.

Mr. DUFFY. Because everyone is looking for labor. But if a guy is making 15 bucks an hour but maybe only worth 11, what happens?

Mr. POWELL. Well—

Mr. DUFFY. They might get fired, right?

Mr. POWELL. Yes.

Mr. DUFFY. Or you might automate.

So the markets actually work to pay people the value of the services that they provide the company, and that especially happens in a tight labor market, which I know you won't make the point on a $15 minimum wage. But my concern is that if we increase that too high and we have people who aren't at a value of $15 an hour, they will lose their jobs and fall into deeper despair. That is my concern.

I am going to switch gears on you. In regard to trade, you are not commenting, I know, on the policies of the President with regard to trade. But you look at our long-term horizon. You have mentioned debt and the problems we are going to have.

But with regard to trade, if we have countries that will steal our technology—so you have a company that invests $500 million in a new technology and someone steals it from you and just has to pay a hacker in a basement, and then you come to market with the same product at 0 cost versus your 500 million, how do we compete in the long run with that environment?

Or if you have a country that manipulates their currency to make sure we can't have some equilibrium with regard to our trade, how do you deal with countries like that but for the policies that the President has pushed?

Mr. POWELL. Those are entirely appropriate considerations for those who have responsibility for trade policy.

Mr. DUFFY. Would it concern you for the long-term health of the American economy if people are stealing our technology? Are cheating us? Are manipulating their currency? Would that concern you?

Mr. POWELL. I have to say, we are very unusual in democracy, that we have this independence, that we—to do our jobs. And I think that means we need to stay in our lane. I try very hard not to get pulled into—

Mr. DUFFY. I know you do you do.

Mr. POWELL. —things that we are not responsible for. So I am just going to have to say that.

Mr. DUFFY. So with regard to—someone mentioned corporate greed. We want to see companies and individuals behave responsibly and honorably. But we also want them to make a profit, right? Do you have an objection to companies and individuals making a profit, making money?

Mr. POWELL. Well, we do have a market-based system.

Mr. DUFFY. And if they make too much, is that a problem for you?

Mr. POWELL. It is not—

Mr. DUFFY. And if so, how much is too much?

Mr. POWELL. Not for us to judge.

Mr. DUFFY. Okay. So do you support a market economy? Do you think it is a good thing?

Mr. POWELL. I think our economy has been market-based, and I think that has served the public well.

Mr. DUFFY. And probably the greatest economy that has existed on the face of the earth. Fair to say?

Yes?

Okay. I yield back.

Chairwoman WATERS. Ms. Ocasio-Cortez, the gentlewoman from New York, is recognized for 5 minutes.

Ms. OCASIO-CORTEZ. Thank you, Madam Chairwoman. And thank you so much, Mr. Powell, for coming in today.

The Federal Reserve's mandate, one of their mandates is to maintain price stability and maximum employment. Is that fair to say?

Mr. POWELL. Yes.

Ms. OCASIO-CORTEZ. And a lot of folks would interpret that as meaning to aim for the lowest unemployment rate possible without runaway inflation, correct?

Mr. POWELL. Yes. Generally.

Ms. OCASIO-CORTEZ. So I kind of wanted to dig in today with you a little bit about this relationship between unemployment rates and inflation.

In early 2014, the Federal Reserve believed that the long-run unemployment rate was around 5.4 percent. In early 2018, it was estimated this was now lower, around 4.5 percent. Now the estimate is around 4.2 percent.

What is the current unemployment rate today?

Mr. POWELL. 3.7 percent.

Ms. OCASIO-CORTEZ. 3.7 percent.

So what we had previously thought of, perhaps as far back as 2014 as the long-run unemployment rate, is around 5.4 percent. What we are currently experiencing is 3.7, lower than that estimate. But unemployment has fallen about three full points since 2014, but inflation is no higher today than it was 5 years ago.

Given these facts, do you think it is possible that the Fed's estimates of the lowest sustainable unemployment rate may have been too high?

Mr. POWELL. Absolutely.

Ms. OCASIO-CORTEZ. So we overshot in what our long-run employment rate is?

Mr. POWELL. I think we have learned,—as you pointed out, I think we have learned that you can't identify—this is something you can't identify directly. I think we have learned that it is lower than we thought—substantially lower than we thought in the past.

Ms. OCASIO-CORTEZ. And I have been seeing lately that economists are increasingly worried that the idea of a Phillips curve that links unemployment and inflation is no longer describing what is happening in today's economy.

Have you been considering on that? What are your thoughts on that?

Mr. POWELL. Yes. Very much so. We spend a great deal of time on that. The connection between slack in the economy or the level of unemployment and inflation was very strong if you go back 50 years. And it has gotten weaker and weaker and weaker to the point where it is a faint heartbeat that you can hear now. It is still there. You can see it at the State level data and things like that.

But I think we really have learned, though, that the economy can sustain much lower unemployment than we thought without troubling levels of inflation. I would look at today's level of unemployment as well within the range of potential estimates, of plausible estimates, of what the natural rate of unemployment is.

Ms. OCASIO-CORTEZ. So why do we think that we are seeing this decoupling in a relationship that we had seen in the economy decades ago?

Mr. POWELL. So one reason is just that inflation expectations are so settled that—and that is what we think drives inflation that—for example, when unemployment went way up, you didn't see inflation go down. And so you don't see inflation reacting to unemployment the way it has, because inflation just seems to be very anchored.

Ms. OCASIO-CORTEZ. Do you think that that could have implications in terms of policymaking? That there is perhaps room for increased tolerance of policies that have historically been thought to drive inflation or increase inflation?

One of the arguments about minimum wage or other policies that directly target middle class Americans is that can they can drive inflation. Do you think that that decoupling is something that we should consider in modern policy considerations?

Mr. POWELL. Yes. Again, I wouldn't want to get into the minimum wage discussion directly. But I think we have learned that inflation—that really downward pressure on inflation around the globe and here is stronger than we had thought. You see countries all over the world not getting—being below their inflation targets whereas, when I was young, they were always above, and now they are always below. And the United States has done better than other countries, but we are still below our target.

Ms. OCASIO-CORTEZ. And thank you. I have one last question.

Earlier you had suggested that, in the event of a recession or a contraction, we like to see more fiscal policy that supports monetary policy.

Can you further articulate what some of those fiscal options and considerations should be, in terms of specific options that we should consider?

Mr. POWELL. I was referring, really, to a severe or significant downturn. And if that were to happen, then I think it would be important that fiscal policy come into play. So there are automatic stabilizers that happen. But in addition, things were done at the beginning of the financial crisis in terms of spending increases and tax cuts that help to replace the demand that had been lost in the private sector and get us through a really rough patch, something like that. But those are things I would reserve for pretty severe downturns.

Ms. OCASIO-CORTEZ. Thank you very much.

Mr. POWELL. Thank you.

Chairwoman WATERS. Mr. Barr, the gentleman from Kentucky, is now recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman. And Chairman Powell, welcome back to the committee. Let me first just say I appreciate my colleague from New York recognizing that the strong Trump economy has not produced inflation challenging the credibility of the Phillips curve. Let me also say, without quibbling about the details, I think that you are doing an outstanding job, Chairman Powell. And I want to especially appreciate the much improved communications with Congress about the direction of monetary policy.

And so I do want to take up this issue of Fed independence, because so much has made in the media of President Trump's criticism of Fed policy in recent months and his reference to quantitative tightening, his criticism of so-called quantitative tightening. As you will recall, many members of this committee, especially on this side of the aisle, criticized your predecessors for overly accommodative monetary policy for an extended period of time, so-called quantitative easing.

And so what I want to just say is that my view is that all of this feedback from both the Executive Branch and the Legislative Branch is a necessary and constructive part of oversight and is simply part of holding the Fed accountable and that it in no way compromises Fed independence since you and the other Governors were given 14-year terms with a provision that makes you removable only for cause.

Do you agree or disagree with that?

Mr. POWELL. I would just say it this way, that we are completely and totally focused on carrying out our jobs. And nothing really will distract us from that.

Our accountability in our system really does lie, though, with this committee and with the other committee on the Senate side. So you have oversight over us and a lot of other systems that is the finance ministry. But in our system of government, it is Congress.

Mr. BARR. My only point is that criticism from Congress or the President does not, in my view, in any way, compromise your independence.

Mr. Chairman, I heard economist Arthur Laffer say over the weekend that the Fed really doesn't set interest rates, that it follows interest rates. I thought this was an interesting comment especially in light of low long-term rates and the inverted yield curve.

Has the case for lowering the Fed funds rate strengthened because the Fed is actually following rates as oppose to setting them?

Mr. POWELL. I wouldn't say that. I didn't see that comment, so I can't react to it. But I wouldn't say it quite that way.

Our focus is on real economy values. In particular, maximum employment and stable prices. So we use our monetary policy tools to achieve that, and we know that our policy works through financial conditions. So we look at a broad range of financial conditions. They do matter for us. What really matters is if there are big changes in financial conditions and they are sustained for a period of time.

Mr. BARR. Where are we today in terms of the proximity of the Fed funds rate to the neutral rate?

Mr. POWELL. That is another one where we—we can only estimate the neutral rate, as you well know. And it is interesting. Estimates of that have come down as well. I would point out that we published the medians of the—in our summary of economic projections every quarter, we publish the medians of the committee. And that number has come down by 50 basis points since September of last year. So the median estimate is now 2.5 percent nominal, which would be about a half a percent real, whereas it was 3 percent back in September.

So we are learning. We are always learning about the natural rate of unemployment and about the neutral rate of interest. And right now, understand that it is estimated within fairly broad uncertainty bounds.

Mr. BARR. As you know, I have been critical of previous Fed positions—or policy that I would characterize as overly improvisational.

As you communicate and forecast where Fed policy is going and you talk about, in your testimony, that the case for a more accommodative policy, that argument is strengthening, I appreciate that because I think it is habituating the markets as opposed to surprises. And I think that is very important for the stability of our financial system.

Last question. You obviously cite in your testimony uncertainties in trade developments as, perhaps, one of the reasons why the case for a more accommodative policy has strengthened in recent months.

What would passage by the Congress of USMCA and enactment of USMCA do in terms of the overall economic outlook and also the future trajectory of monetary policy?

Mr. POWELL. I think it would remove uncertainty about our trade policy with Mexico and Canada to have that pass. And I think that would be a positive thing. Of course, I wouldn't comment on the particular merits of it. It wouldn't be appropriate. But I would say the passage of it would remove uncertainty, and I think that would help in the current environment.

Mr. BARR. I do have, actually, one final question, and that is you had responded to my question about the G-SIB surcharge. And you said that a proposal to simplify capital requirements for banking firms by integrating a banking firm supervisory test results into regulatory capital requirements, where are we on that?

Mr. POWELL. Moving forward. Working on it. Working on it.

Mr. BARR. Thank you.

I yield back.

Chairwoman WATERS. Ms. Wexton, the gentlewoman from Virginia, is now recognized for 5 minutes.

Ms. WEXTON. Thank you, Madam Chairwoman. And thank you, Chairman Powell, for joining us today.

Chairman Powell, do you think that the U.S. should go back to the gold standard for our currency?

Mr. POWELL. Let me say I wouldn't—this could feasibly be considered commenting on a particular nominee who has recommended that. And, of course, I would not do that. I will answer your question, but I want to make sure that this isn't interpreted in that way.

So, no, I don't think that would be a good idea. The idea would be Congress would have to pass a law, and that law would say that our job with monetary policy is to manage the level of the dollar—stabilize the dollar price of gold. And we would then not be looking at maximum employment or stable prices. And there have been plenty of times in the fairly recent history where the price of gold has sent signals that would be quite negative for either of those goals. So I don't think that is something that would be attractive. No other country uses it.

Ms. WEXTON. Because it is much more volatile. Linking it to gold would be very volatile, or could be.

Mr. POWELL. Well, it is really that it is not connected to or direct—you have assigned us the job of two direct real economy objectives: Maximum employment; stable prices. If you assigned us stabilize the dollar price of gold, monetary policy could do that. But the other things would fluctuate, and we wouldn't care. We wouldn't care if unemployment went up or down. That wouldn't be our job anymore. So I think that would be difficult to—

Ms. WEXTON. And that is not a positive mission for the Fed?

Mr. POWELL. Sorry?

Ms. WEXTON. A much better mission for the Fed is what you are doing right now?

Mr. POWELL. Well, this is why every country in the world abandoned the gold standard some decades ago.

Ms. WEXTON. Okay. Well, and that reluctance or that desire not to go back to the gold standard is something that you have in common with the CEOs of the seven—seven of the world's global systemically important banks who were before us in April and said the same thing.

But it is worth noting that last week the President nominated Judy Shelton for a seat on the Fed. And she is similar to two of his other would-be nominees in that she does favor a return to the gold standard. So I assume, from your earlier answers, that you don't share that view.

Mr. POWELL. I don't share that view, but I would never comment on the views or any particular nominee. We do not play a role in the nomination process. It is totally up to the President and the Senate in that, and we just are completely on the sidelines there.

Ms. WEXTON. Okay. My concerns about Ms. Shelton are not just her questionable views about monetary policy. But she also seems to be, by most accounts, a political opportunist who thinks low rates are bad under Democratic Presidents and good under Republican Presidents. And that I would caution concern when looking into the nomination and confirmation of this candidate.

I do want to talk for a minute about debt. There have been a lot of questions about it. In particular, the debt ceiling.

On Monday, the Bipartisan Policy Center projected that the U.S. Treasury could run out of money by early September if Congress doesn't raise the debt ceiling. And that is actually because the government brought in far less in corporate tax revenues than—less this year than was projected as a result of the tax cuts, because spending is only one side of the ledger, right? We need to look at the revenues. And there is a possibility that the U.S. could default on its debts.

What would Congress' failure to raise the debt ceiling—what would that mean for the U.S. economy?

Mr. POWELL. So I think it is essential that Congress raise the debt ceiling in a timely way so that the United States continues to pay all of its bills when and as due. I think any other outcome is unthinkable.

We have never failed to pay our bills when due. And so I assume and believe that the debt ceiling will be raised in a timely fashion.

Ms. WEXTON. What would it mean for the economy and for interest rates if we failed to do so?

Mr. POWELL. I think it is—it would be very uncertain territory if the United States were to stop paying its bills. It would be—I wouldn't be able to capture the range of possible negative outcomes from that. The loss of confidence in our ability to run our fiscal house could be substantial. It would be about a lot of uncertainty. And I just think it is beyond contemplating that.

Ms. WEXTON. Well, and yet we must contemplate it, Mr. Chairman.

Thank you. And I agree. And I want to encourage leadership on both sides of the aisle in both chambers of Congress to not wait until the last minute to make sure we raise that ceiling.

Thank you.

I yield back.

Chairwoman WATERS. Thank you.

Mr. Gooden, the gentleman from Texas, is now recognized for 5 minutes.

Mr. GOODEN. Thank you, Madam Chairwoman.

Chairman Powell, the Board has done a great deal of work with regard to foreign banking organizations. But I am concerned there is a lack of harmonization across jurisdictions with respect to these foreign banking jurisdictions. And I just want to make sure that you all are working to ensure that our U.S. firms are not disadvantaged in the foreign marketplace and could hear a little more about your plans for that.

Mr. POWELL. So I think here we want to give national treatment equal treatment to foreign institutions, and we fully expect and anticipate that we will get that in foreign jurisdictions. That is why we give it here. Plus, we want foreign institutions to come in and do business here and lend capital to people and take part in the capital markets. That only helps our economy. And we want our institutions to be able to take part in foreign economies. Many banks work across national—international lines now. So it is essential that there be fair treatment for nonnative banks all around the world.

Mr. GOODEN. Thank you. I appreciate that stance.

Also, in your written testimony, you mentioned trade tensions and slowed global growth as potential threats to the U.S. economy.

Between these and the debt ceiling and the lack of consensus in Congress, what would you say are your biggest concerns out of those?

Mr. POWELL. Out of those, I really think that the most important thing is the—what we have been calling the crosscurrents, which are the—really, trade tensions and concerns over slowing growth, global growth, around the world. Those are interrelated. There is a box in our monetary policy report that I recommend to you about slowing global growth and manufacturing and investment, which is something we are seeing not just in the United States but around the world. And, that is the thing that weighs on our outlook. We see it here. We see weak manufacturing here. We see confidence surveys among businesses. And fortunately, the consumer part of the economy is doing very well. But that is where the weakness is. And that is where the concern—the other things are concerns too, but I would put those at the top of the list, along with low inflation. That is a concern—that is the other half of our mandate. And, we are concerned that inflation not run below 2 percent more persistently than we thought it would.

Mr. GOODEN. So putting all that together, the current state of the economy where you see us going, on a scale of one to ten, how would you rate where we are with respect to an economy, one being bad, ten being great?

Mr. POWELL. I don't think I will give you an actual grade. But I will say this. We are in the eleventh year of this expansion, that is a first, since we began to keep records on this. We are at 3.7 percent unemployment. That is a 50-year low, 50-year low. And we have been there for 15 months. And there is no reason why that can't continue. We are committed to using our tools to make sure that it does continue.

And I just would again point out, though, that this expansion is now reaching groups that hadn't been reached in the first few years, and there was a box on that as well in the monetary policy report. All the more reason why it is so important that we keep the expansion going to the maximum extent we can.

Mr. GOODEN. I agree with you, and I thank you.

And I yield back.

Chairwoman WATERS. Ms. Adams is now recognized for 5 minutes.

Ms. ADAMS. Thank you, Madam Chairwoman. Thank you for convening the hearing. And, Mr. Powell, thank you for being here, for your thoughtful testimony. And you and the rest of the Board of Governors have a very monumental task. And you have made some good decisions. And I am also heartened to see that you are maintaining your independence and not allowing yourself to be bullied.

Let me just put a couple of things on the record. We have had a lot of discussion here about the CBO report and the minimum wage. And I just want to add something else to the equation. That is that, yes, there has been some discussion about losses. But I think we need to consider the fact that raising the wage will elevate 27 million low wage workers. And we really need to be concerned about the fact that so many people are really living at the poverty level. A lot of those folks live in my State of North Carolina.

So when you look at the fact that we are going to raise people up, when we look at this $15 that we keep hearing about, I have done the math on it, and it is like $1.55 a year.

But anyway, let me move on, having said that, to a question about the inequality in terms of black unemployment. The overall unemployment rate is about 4 percent. The unemployment rate for African-Americans was about—almost 7 percent in this recent bureau of labor statistics report, which almost doubles the unemployment rate for whites, which is about 3.5 percent in the same report. And these unemployment rates have been steadily falling since 2011.

So what, if any, analysis does the Federal Reserve do to evaluate the degree to which economic inequality affects the African-American unemployment rate?

Mr. POWELL. Affects the African-American unemployment—well, let me say, as a feature of our labor markets, African-American unemployment has often run at double. And so that means it comes down faster when times are good, and it goes up faster, twice as fast. So that is not a good feature of our employment market.

Ms. ADAMS. Thank you.

So what more do you think can be done to ensure that unemployment among minority groups gets as low as white unemployment? And what role can the Federal Reserve play, if any, in reducing these disparities?

Mr. POWELL. The tools that we have—and, actually, there is a box in the monetary policy report that talks about different—it is not by African-Americans. It is by different levels of education, which we can show you. But it does talk about the disparate outcomes for people.

In terms of what we can do, I think, again, it goes back to taking seriously the job you have given us, which is maximum employment. So we are seeing—in these tight labor markets, we are seeing communities, including African-American communities, that are being reached by the jobs market in a way that they haven't felt really ever, or certainly, a very long time ago when we had 3.7 percent unemployment. It was the late 1960s, which you and I can remember.

Ms. ADAMS. Absolutely.

Mr. POWELL. Not everybody here can.

Ms. ADAMS. That is right. I am a child of the 1960s. I am a baby boomer, and I do remember that.

What is supposed to come out of the monetary policy review that happened earlier last month? Were there any important takeaways? And will there be changes to the way that you and the Board conduct the monetary policy because of this review?

Mr. POWELL. There may be changes. We haven't decided that yet. We are just into the phase of taking a close look. And we are really looking at the question, are there ways we can change our toolbox or our strategy or our communications that will enable us to better serve the public. And one of the key motivators for that is that rates are so much lower, we are closer to 0, that means we have less room to cut. And are there ways we can—the people have been thinking about this problem for more than 20 years. So we want to get the best thinking and come out of this with the best ways to serve the public with our toolkit. We may make changes, but that discussion lies ahead of us.

Ms. ADAMS. Great. Thank you very much for your service. And again, thank you for not allowing yourself to be bullied. I think that is really important in terms of the job that you are doing.

And, Madam Chairwoman, I yield back my time.

Chairwoman WATERS. Mr. Williams, the gentleman from Texas, is now recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairwoman. And thank you, Mr. Chairman, for being here today. And just as a reminder, as you know, I am a small business owner, Main Street America, and very much interested in what has happened at the Fed. I wanted to also reiterate my past statements about interest rates. Even the slightest changes can have significant impacts on many parts of the economy.

We both remember a time when interest rates were 20 percent. And the principal balance for these rates compared to today was relatively low. And when a new car cost $6,000 in the 1970s, now the same vehicle can be $60,000. And with this principal so high, just even a bit of slight increases to the interest rate can really crush businesses with high inventory costs, and it results in lower sales.

And we discussed this before, you and I. But I wanted to, once again, commend you for you having a good pulse on the economy and making the appropriate interest rate adjustments. So before I begin my questions, I want to make sure nothing has changed since you last came before this committee.

Are you still a capitalist, or have you undergone a drastic change of thought and now believe socialism would be a better economic system for our country?

Mr. POWELL. No drastic change.

Mr. WILLIAMS. Thank you.

So yesterday in Boston, you stated if the stress tests do not evolve, they risk becoming a compliance exercise breeding complacency from both supervisors and banks. You continue to say that banks will need to be ready not just for expected risk but for unexpected ones. You obviously understand the importance of these stress tests to ensure our financial system is resilient. Even so, I heard some criticism that the Fed stress tests have been watered down over the past few years in order to let the biggest banks off easy.

So do you believe these stress tests have been made easier since you took over as Chairman of the Federal Reserve? And how do these simulated stress scenarios compare in scale relative to the 2008 financial crisis?

Mr. POWELL. I don't believe we have made them easier. We have no intention of making them easier. We do have the intention of having them evolve, though. We are 10 years into this. I think we have done nine cycles now. And I think there is a risk that if we don't continue to adapt to the markets and to the institutions and to the state of the economy that they will become stale and people will get complacent, and you come back in another 10 years, and they are not really a factor anymore. They have been a very successful innovation in—maybe the most successful regulatory innovation since the financial crisis. And I think even the banks would agree to that. So we intend them to be—continue to be strong going forward.

Mr. WILLIAMS. Thank you.

In February when you were in front of this committee, I asked you about the labor force participation rate, even though there are over 7 million job openings. As an employer, it is hard to hire people right now. You mentioned some factors keeping this number around 63 percent, such as a skills gap, poor education, and the opioid crisis. Obviously, the Fed has no control over any of these factors, and we must deal with them here in Congress.

With that being said, you have noticed—have you noticed any of these factors improving in getting more people back in the workforce since you were last here in February?

Mr. POWELL. I think labor force participation—the labor force participation rate has held up pretty well. There is a declining trend due to aging in the population. It is at 62.9 percent now. That is where it was in late 2013. So that is a big gain against the trend. That is a good thing.

More anecdotally, we are hearing a lot from folks who live and work in low- and moderate- income communities that there are work opportunities. And there are companies that are coming in and really want workers, and they are going to look through some of the problematic things people may have had in their lives and hire them anyway.

And so we think that is really healthy. In a tight labor market—if you have a tight labor market that lasts for quite a long time, that is what you are going to get. So we think it is—we do think that that is a relatively new development and a very positive one.

Mr. WILLIAMS. All right. And according to the most recent monetary policy report, consumer spending was down at the beginning of the first quarter, which you touched on earlier this morning, but appears to have picked up. And I can tell you, as a business person, we have seen it pick up.

So what factors do you see as contributing to this turnaround?

Mr. POWELL. I think it is strong job creation. It is wages moving up. It is, as you mentioned, a tight labor market. It is workers who work—we survey workers, and they say that jobs are plentiful. We survey businesses; and they say we can't find workers. So that is a world where the worker and the family is feeling—people are quitting their jobs. It is a world where they are feeling good about the economy, relatively.

Mr. WILLIAMS. And when you have more jobs than workers, it has a tendency to drive up wages, and we see that on Main Street America.

Mr. POWELL. Yes.

Mr. WILLIAMS. Thank you for your service. I appreciate you being here today.

I yield back.

Mr. POWELL. Thank you, sir.

Chairwoman WATERS. Thank you.

The gentlewoman from Pennsylvania, Ms. Dean, is now recognized for 5 minutes.

Ms. DEAN. Thank you, Chairwoman Waters. And thank you, Chairman Powell, for your expertise, your service, and for coming and explaining things to us. I learn a lot when I hear you speak, and I thank you for that.

I wanted to examine a little more closely some of the things you talked about. Consumer side looking strong; the business side weakening. And I want to compare that and ask you what are some of the triggers to the weakening on the business side? As I look at the chart, trade policy uncertainty, you said it is no question. Uncertainty is elevated. What would greater certainty look like? What are some of the things creating the uncertainty? What would greater certainty look like? And then what would the impact be on the economy?

Mr. POWELL. So we think that the place where uncertainty showing up is in business investment. Businesses make investments, and those have to work for a longer period of time. When businesses become uncertain about the future and about a future demand, they may hold off. They may decide to wait before they build something or buy something. And they may just hold off.

So what we are seeing is business fixed investment, which was quite strong. Business investment was very strong right through 2017 and most of 2018. It has really slowed down now in the middle of the year. And we do connect that. There is no perfect way to identify these things, but we do connect that to trade policy uncertainty and also uncertainty about global growth and weak manufacturing around the world.

Ms. DEAN. What specifically in trade policy do you think is connected to that pulling back on investment?

Mr. POWELL. I think it is just—there have been trading—you know, the people who are responsible for trade—and that is not us. We don't criticize them for what they do. We have a broad series of trade discussions going on.

If you are a manufacturing company in our economy of any size, the chances are pretty good that your supply chain goes across national borders to Canada, or Mexico, or China, or Vietnam, or someplace. And that supply chain is really part of the way you do business. And you just assume that it is working, and you can focus on your clients.

When the supply chain is called into question—we hear this a lot from businesses, by the way. When it is called into question, you pull back, and you have less certainty about how this is going to work. You may have to change it. Many companies have changed their supply chain away from China now—

Ms. DEAN. Because of the tariffs.

Mr. POWELL. —had moved to Mexico or Vietnam. So I just think that that uncertainty is something that we call out for the economy. But, again, I wouldn't want to suggest that that in any way is a criticism of those who are conducting the policy. We don't have a responsibility for evaluating that. That is for them.

Ms. DEAN. I understand and appreciate your independence there.

I am hearing the same thing on the ground from my businesses in Montgomery and Berks Counties, Pennsylvania. The uncertainty, the fickle trade policy, fickle tariff policy, the punitive tariff policy is driving their conservatism in their own areas.

Let me shift to something else that you talked about. And I care deeply about gun violence, the opioid crisis. And I am wondering, through your complex lens, could you talk about the opioid crisis and/or gun violence. One of the recent reports on gun violence says that gun violence in this country cost our economy somewhere in the area of $230 billion a year. And I know you are not involved in gun policy or the opioid crisis policy. But through your lens and through the tools that you are using, what are you seeing? What could we in Congress learn about how we could minimize, reduce that economic impact?

Mr. POWELL. I can probably do a little better talking about opioids where there has been some great research including by the late labor economist Alan Kruger, who sadly passed away last year, or maybe earlier this year, about the effect of the opioid crisis.

So if you take the prime age, men, in certain age groups who are out of the labor force, an extraordinary percentage of them—I think the number was 44 percent—are taking some kind of painkiller. So it is a big number. It is a big number of people that are on opioids and, for the most part, missing from the labor force.

We all want the U.S. economy to grow faster and be larger. And we want prosperity to be broadly shared. There are people who are in the prime working years who are on opioids. And it is a national crisis. And I know people are working on it. But it is out there, and it is just—there is a human tragedy, but there is also an economic motivation to get these people into the labor force where they can lead healthy lives.

Ms. DEAN. I appreciate that, in terms of direct cost to labor and also if you think about the number, 72,000 people in a single year dying of overdose. Think of the lost economic—or the impact—the economic impact, obviously, to the individual family but then to the communities, to their children and elsewhere.

So I thank you very much for your work. And I always learn something from you.

Thank you I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Oklahoma, Mr. Lucas, is recognized for 5 minutes.

Mr. LUCAS. Thank you, Madam Chairwoman. And thank you for being here today, again, Chairman Powell.

We have discussed, many times, the nature of my district. It is agriculture. It is energy. It is capital intensive. So the actions that the Fed takes, the actions the Treasury takes has a very direct impact on my constituency. I am very, in particular, sensitive about Fed actions because my part of the world suffered the most at the end of the 1920s and the 1930s before we became far more sophisticated in how we handle these policies.

You are the fourth Fed Chairman who has appeared before this committee in this capacity since I have been a Member. And there are just a handful of us on the back row who go all way back to Mr. Greenspan. And I found you to be as upfront and as straightforward as anyone could be in your position and, in some ways, really quite impressive compared to the things in the past.

Now, that said, I have also learned in my time to try and focus on things that matter to my people back home that would make a difference to them even if sometimes it appears to be done in the weeds. I have a suspicion, very bright fellow that you are, that you know where we are going with this next question. But I have been raising the issue of inter-affiliate initial margin for nearly 5 years now. And while regulators have agreed that the inter-affiliate initial margin requirements are an issue to be addressed, we have not yet been given any indication of timing.

When in Congress can we expect some action, Chairman?

Mr. POWELL. I wish I could be here to give you perfect clarity on that. But neither am I completely empty-handed. So I do know that this is a subject of active inter-agency discussions at the moment, and I am hopeful that those will be fruitful.

Mr. LUCAS. And Mr. Chairman, like a birddog on point, that I would reiterate that the U.S. is the only G20 country to impose these initial margin requirements. And this has created what I fear is an unlevel playing field for United States institutions. And I believe it is time we come to focus.

So my second very respectful question. Last month the Basel Committee on banking supervision agreed to provide an offset for client cleared initial margin under the leverage ratio. And the bipartisan CFTC commissioner support this offset, and I am looking forward to the Fed and the other prudential regulators implementing this global revision.

Can you give me a sense about timeline on that, perhaps?

Mr. POWELL. I will have to get back to you on that one. And I will do so promptly.

Mr. LUCAS. Fair enough, Mr. Chairman.

You are following in those fine traditions dating back to Mr. Greenspan. And I respect that. And I say that respectfully.

So, once again, one final question. And I want to again voice my concern about the SA-CCR proposal. I am worried that higher capital charges under SA-CCR will cause banks to pass those costs on to commercial end users engaged in OCT transactions. And Congress clearly sought to provide relief for end users as a part of Dodd-Frank.

This proposal, I fear, threatens to undermine congressional intent and would deter end users from engaging in risk management activity. So I suspect you are aware of these concerns. And I hope that we will see them addressed. Just noting, from my perspective again, as a Member of Congress from third district of Oklahoma, the food we produce, the energy we provide—those resources need these kind of risk management tools because of the sheer capital intensive nature of the businesses.

So focus, Mr. Chairman. I know you will. I appreciate you very much.

Mr. POWELL. Thank you.

That last one, I think you are probably aware, is out for comment after a lot of work.

Mr. LUCAS. Progress, Mr. Chairman. I like that.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentlewoman from Texas, Ms. Garcia, is recognized for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Madam Chairwoman. And thank you, Chairman Powell, for your endurance. We are almost at the end of the tunnel, it looks like.

And I just wanted to focus a little bit on the widening income inequality gap that we have been talking about. And I wanted to followup on your answers to Mr. Lawson and Mrs. Axne.

You said that we have seen the gains of the past decade accruing to the upper income groups in passing the middle and lower income groups. Can you expand on the long-term systemic risks that such inequality would introduce in the economy of such skewing of benefits if it continues on the present course and into the future?

Mr. POWELL. So I think the tradition has been—or the history has been that people have generally been able to progress and, through time, be economically better off than their predecessors and their parents and grandparents, and that kind of thing. And I think that is how people think about that—that have thought about life in our system.

And I think the data show that that is less and less true. It is still true for many, but it is true for fewer than it used to be. And that is not good.

We want prosperity to be spread as broadly as it possibly can, and we want there to be progress upward for lots of people. And we want mobility from the bottom to the top, and vice versa. We want the outcomes to be fair.

And if you don't have that, you ask what is the cost of it, really. I think the costs are big. And that would include kind of a loss of faith in our institutions to deliver that in our society.

So I think it is a very important problem to address. And I also—by the way, I see lots of businesses and people coming around to that view that maybe weren't thinking that way 5 years ago. You hear that a lot. You hear a lot of discussion about this now in the business community, and they see it in terms of good employees and things like that, but also in terms of people to buy their products. So I think this is a national problem. And I—

Ms. GARCIA OF TEXAS. So what happens to the bottom? It is not as simple as haves and have nots. If it is shifting and the goal is always to move up, if you will, what happens to the bottom? Do you all track and look at the poverty rates? Do you all look and track at the lower income levels?

Mr. POWELL. Researchers do, yes.

Ms. GARCIA OF TEXAS. Are the people who are living as Representative Pressley said, paycheck to paycheck?

Mr. POWELL. We do, and lots of economists outside the Fed do track all of that.

Ms. GARCIA OF TEXAS. Unless I missed it, I didn't see any data on poverty rates or what it is doing. Your book talks about the inflation rate goal of 2 percent, and the unemployment rate as low as possible.

But what is the bottom that we can reach in terms of a poverty rate?

Mr. POWELL. I don't have a number for you. We have all that data. We don't put it in every monetary policy report. You probably saw the box, though, that talked about disparate labor market outcomes for people with a lot of education, people with less education which kind of goes—

Ms. GARCIA OF TEXAS. Where do you find it is unacceptable in terms of a poverty rate before it skews everything else?

Mr. POWELL. Any positive number.

Ms. GARCIA OF TEXAS. Any positive number?

Mr. POWELL. Yes. I think our goal should be to not have poverty. What is an acceptable number? In our country, no amount of poverty should be acceptable, seems to me. Now, I know we have a lot of poverty. But if you ask me that question, I would say—

Ms. GARCIA OF TEXAS. Well, that would be my goal too. But for others who may not—I don't know if you follow, but the President wants to change the poverty line and how we index it to the CPI, where they change CPI. And there is a proposed rule change. And some people would rather just pretend that there is no poverty or that they have done something to reduce poverty. And changing the rule somehow in how to calculate it, it doesn't get us anywhere. I just wondered if you looked at that proposal and whether you favor it or disfavor it.

Mr. POWELL. I have not looked at it. I wouldn't have an opinion on that.

Ms. GARCIA OF TEXAS. You wouldn't?

Well, I am glad that you agree with me that the goal should be 0. That is something that I have worked with my entire life, and will continue to do that. And I think that the minimum wage increase would be a step in that direction and a number of other initiatives that I hope that we will be able to get through Congress.

I appreciate your time. Thank you.

Mr. POWELL. Thank you.

Ms. GARCIA OF TEXAS. Thank you. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Minnesota, Mr. Phillips, is recognized for 5 minutes.

Mr. PHILLIPS. Thank you, Madam Chairwoman.

And welcome, Chairman Powell. When you get to me, you have reached the finish line.

My first question: Why is the U.S. dollar the world's reserve currency?

Mr. POWELL. The U.S. dollar is the world's reserve currency. There tends to be one, so if you have the country with the best institutions, the largest economy, the rule of law, and relatively open to commerce, a trading nation, you can be that.

So what happens is there tends to be one reserve currency, and it tends to be a stable equilibrium for a period of time, but it is not infinite, right? The pound, of course, was the reserve currency for many, many years, but now the dollar has been for some time.

Mr. PHILLIPS. So what do you consider risks to that changing at some point in future?

Mr. POWELL. It is a very long-run thing. It is a fairly stable equilibrium. You have to think what currency out there would compete with the dollar, and there really—it would be the Euro or—it is hard to see the dollar not being in the reserve currency for quite some time.

That doesn't mean that every—there can be multiple reserve currencies. So there can an equilibrium where there are two or three, and that would be fine. But right now it really is the dollar. And I don't see that under threat right now. Of course, in the long run, it will come down to fiscal sustainability. It will come down to maintaining our rule of law and Democratic institutions and prosperity and being a relatively open trading nation. All of those things are essential.

Mr. PHILLIPS. In your opening remarks, you talked about concerns relative to our high and rising Federal debt. Would that be a concern relative to the U.S. dollar maintaining—

Mr. POWELL. In the long run, absolutely.

Mr. PHILLIPS. Okay. Second question. When you contemplate rate changes, how much weight to you give to the ongoing strength of current economic data versus the forward-looking weakness implied by the inverted yield curve?

Mr. POWELL. I think monetary policy is always about the outlook. You have to understand and take into account the current position of the economy which, in our case, is very strong, low unemployment, and relative price stability. But we are always about looking forward, because monetary policy works with a lag.

You asked about the yield curve. And that is something we do look at, of course, because there is a message in there—there are a couple of messages in there. You have to think carefully about what they might be. And it is not a single thing that is a dominant financial condition. There are many, many things that we look at in financial markets. And that is just one of them, but it is certainly one.

Mr. PHILLIPS. Okay. And lastly, do you believe that the Federal Reserve has the requisite tools to fulfill its mandate at the ZLB without assistance of fiscal policy?

Mr. POWELL. Well, as I mentioned earlier, first of all, we do have the tools that we have, and we will use them aggressively. And we believe they will be adequate.

As I mentioned, though, in a severe downturn, there comes a time when fiscal policy support is necessary and appropriate. And one of those times was during the global financial crisis and the Great Recession. So fiscal policy is very powerful, and I think it is important to have. I think for the most part the Fed can handle countercyclical policy. But in a steep downturn, there will always be an important role for fiscal policy.

Mr. PHILLIPS. Okay. So is the authorization to buy a wider range of assets at the lower bound? Would that be helpful or important or not at this time?

Mr. POWELL. I don't think we are seeking that. We are really not looking at that. We will have plenty of Treasuries to buy if it comes to that.

If it comes to buying assets, there will be no shortage of U.S. Treasury securities. I don't think we are looking at—you are referring to the fact that other central banks have the ability to buy equities, all kinds of different things. It is not an authority we are seeking or looking at or think that we need.

Mr. PHILLIPS. Okay. Thank you, Mr. Chairman.

And I yield back.

Chairwoman WATERS. Thank you very much.

Now, we have the gentleman from California, Mr. Sherman. We are trying to honor your 1:00 time that we agreed upon, and we are just running a few minutes over. But we only have two Memberw left: Mr. Sherman and Mr. Heck.

So, Mr. Sherman, would you—

Mr. SHERMAN. I thank both the Chairwoman and the Chairman for their indulgence. I spent a couple of decades in this room. I have watched Republicans come here and condemn the Fed for overly loose money and condemn you for quantitative easing. I, for one, have been pushing in the other direction. It is interesting to see how, with Trump's—I think one of our colleagues said the Republicans seem to be in favor of loose money only when there is a Republican President.

The fact is that you haven't hit your 2 percent inflation goal. And as we have talked earlier, it should be at 2.5 percent inflation goal, because—and while unemployment is low, we haven't had the big wage increases. You have told us that wages have grown, but basically by 1 percent over inflation, which doesn't make up for 30 years of negative or stagnate wage growth in this country for those without a college degree.

On trade I have seen the reverse roles in another way. Democrats voted against MFN for China, against NAFTA, CAFTA, and SHAFTA. But now that Trump is just flailing at the trade deficit, I hear an occasional Democrat saying we should just ignore the trade deficit. I don't think that flailing or ignoring is the right approach.

I know that there has been significant discussion here about cryptocurrencies. This constitutes cryptocurrencies, an attempt, I hope unsuccessful, to transfer power from the United States Government to sanctions evaders, terrorists, tax evaders, and drug dealers while reducing the importance, as the Chairman indicated, of the United States dollar as the reserve and trade currency.

Madam Chairwoman, I know that we have an executive from Facebook coming to join us. But ultimately, it is time to bring Mark Zuckerberg here. He is the one that has made billions of dollars out of us, relies on the U.S. Government to protect his billions, and now wants to undermine the system. But I see his problem, and that is he wants to invade the privacy of the average American and sell our data. And in order to compensate for that, he wants to provide privacy to drug dealers and terrorists thereby establishing how dedicated to privacy he is.

So I look forward to bringing him here, because the Libra is an attempt to create a cryptocurrency that you could actually use to buy things. Right now we can kind of monitor the bitcoin, because to actually buy something, you need to convert it to the dollar.

Mr. Chairman, I want to shift to another issue. We have talked last time you were here about wire fraud. Mr. Kustoff and I got 40 of our Members to write you. And we just got the response today about the need for a name matching system so that when you wire money, you wire money not just to an account number but to a name, because especially in real estate transactions, we have had a lot of people tricked into wiring money into an account because hacking and spoofing has caused them to do that.

The United Kingdom is moving to a safeguard system where, when you wire the money, you wire it not just to an account number but that you match it with a name. Your response indicated that there would be some difficulty in doing that here. I know that we have State laws here that establish some rules, but you certainly have the capacity to regulate the financial institutions. You have regulations in this area. You could adopt regulations that say, if you are going to accept a wire transfer, is has to be wired to an account name not just to an account number.

How do you plan on addressing this issue where people are conned into wiring money into an account number thinking that is the owner of the property that they are trying to buy?

Mr. POWELL. So we understand it is a serious issue and that it is something that they do in a very organized crime kind of a way. Hacking into—they get a list of the real estate transactions. They try to hack into the players, and they try to divert these payments. It is organized crime.

You accurately, obviously, summarized the contents of that letter. And I would say, we have concerns about the matching name idea, because it conflicts with some State laws. We think that really the way to get after it is to get banks to have appropriate ID from customers.

But what I will propose, though, is—let me get the people who are the experts on this to talk to you and your staff and try to—

Mr. SHERMAN. And I would point out, this is clearly interstate commerce. This is clearly Federal jurisdiction, legal, and we have granted you the power. Please use it

Mr. POWELL. Great. Thank you.

Chairwoman WATERS. Thank you very much.

The gentleman from Washington, Mr. Heck, is now recognized for 5 minutes.

Mr. HECK. Thank you very much, Madam Chairwoman.

And, Mr. Chairman, thank you so much for staying.

I have a straightforward question. Five days ago, the President of the United States said we have a Fed that don't know what they are doing.

So for the record, sir, do you?

Mr. POWELL. I would say let's take a look at the economy and let that be the report card. So, again, we are—the economy is into its 11th year of expansion.

Mr. HECK. The longest in modern history.

Mr. POWELL. Since we kept records, which began I think in the mid 19th century. Unemployment is at a 50-year low and has been for 15 months, and we expect that to continue. So, I think inflation is below where we would like it. As you know, we are concerned about uncertainties and other factors that are weighing on the outlook and looking at changing our policy, but overall, I would say that our economy is on a solid footing.

Mr. HECK. So despite disagreements you and I may have had in the past about the actions I think the Fed should have taken with respect to interest rate raises, I want to state for the record I do think that you know what you are doing.

I thank you for being here. I thank you for your willingness and courage to stay independent. I thank you for your accessibility. You are only the third Fed Chair that I have had the privilege to work with, but you are amazingly accessible. And I thank you especially for your remarks earlier in conversations with various members, notably Mr. Stivers and Mr. Perlmutter, regarding wage growth, and in particular, not being tempted to characterize recent wage growth as adequate, because it is inadequate.

And, as you know, I have been asking since I came to this committee, when does America get a raise? And it is long overdue; but it sets up a bit of, as it were, a dilemma for me. You have characterized here today that the crosscurrents confronting the American economy are trade and global growth. I want to know why it is, given that the Fed and you have accurately pointed to the fact that our economy is 70 percent consumer driven, why hasn't the Fed called out more than a generation of lack of wage growth a threat to this economy? If we want to have a healthy economy that is 70 percent consumer driven, we have to have some decent wage growth, and we haven't. We have to have a prosperous growing middle class, and we haven't.

So why doesn't the Fed explicitly call out this lack of wage growth as a threat to the growth of this economy and the health of this economy?

Mr. POWELL. Well, I think we do. I think we have been trying to promote—

Mr. HECK. You were asked and you said the crosscurrents are trade and global growth. The other crosscurrent, the other downward factor is the absence of wage growth, is it not?

Mr. POWELL. I think it is really, if you look at the last—go back to your point. Go back to the turn of the century. What you saw was a decline in labor share. And that has not been reversed. So we are focusing on the change in wages but really the level, they are missing—wages are missing 10 years of growth. So I think that is really the underlying problem. We are getting reasonable wage growth, but we missed all of those years, beginning again at the beginning of this century. So I think it is a very serious problem, and we should do a better job of calling it out.

Mr. HECK. I look forward to you doing just that.

Phillips curve, there was a recent article in The Wall Street Journal said that in Japan, the Phillips curve is dead. And obviously, the connection, as was discussed here, alluded to here earlier, has become more tenuous, even in this country. I would posit and ask for your reaction that the fact is that if you measure the Phillips curve in terms of U3, the connection has been more tenuous, but if you do, as you just now indicated, in terms of percentage of especially 25- to 64-, 25- to 54-year-olds participating in the workforce, then the Phillips curve isn't dead and that is, in part, why we are beginning to see some traction.

Why would we continue to use U3 when it clearly isn't reflective of what has gone on, especially in the aftermath of the Great Recession, where people keep coming out of the woodwork to join this workforce, and as a consequence, that unemployment rate keeps going lower and lower but we keep adding hundreds of thousands of people to the workforce? Is it not—have we repealed the law of supply and demand, or can we, if we continue to add people to the workforce, expect continued wage growth?

Mr. POWELL. So U3 is just a number to us. It isn't the number. We refer to it quite a bit, but obviously, we look at a broad range of employment indicators. I am not sure I took your question, though, on this.

Mr. HECK. Well, I think my point is that we haven't reached full employment as long as people keep coming out of the—

Mr. POWELL. No, that is—

Mr. HECK.—woodwork.

Mr. POWELL. Okay. That is where I thought you were—yes. That is where we are learning. We are learning this. A lot of the margin where we have seen the improvement has been in labor force participation rather than unemployment, and that is great. People come in—you could actually see—and you have seen—in some months you've seen labor force participation going up, go—enough labor force participation increased, but the unemployment rate actually ticks up, but that is a good thing.

Mr. HECK. So I am way over, and the Chair indulged me to even allow me to ask questions today, again, for which I am grateful.

Two things. We need more wage growth. Secondly, I believe you know what you are doing, sir, and I thank you for it.

Mr. POWELL. Thank you.

Chairwoman WATERS. Thank you very much.

Mr. Powell, we have one more Member, the gentleman from Georgia, Mr. Loudermilk, and then we will wrap it up.

Mr. LOUDERMILK. Thank you for indulgence, Madam Chairwoman.

Chairman Powell, thank you. I will try to be quick and concise. I do have just a few questions, and so I won't make any statements.

First one, real-time payments, you and I have had this discussion before. Do you have any idea when you may announce the decision of whether to get into real-time payments or not?

Mr. POWELL. We are in the middle of—we haven't actually gotten to a place where we are getting ready to make a decision, but I think there has been a ton of work and so we are moving forward to try to make a decision on when it is ready to do.

Mr. LOUDERMILK. Okay. What are the factors you are weighing?

Mr. POWELL. As you know, this was something that came out of the Faster Payments Task Force, and that was a group of involved small banks, large banks, community activists, technologists, card companies, all of that, and there was broad support, particularly among the smaller banks, as I mentioned earlier, for us to play a role in final settlement. And that was a recommendation that came out of that. So we put out a proposal last year and we asked for comment. We got, I think, 400 comment letters, and we are piling through those and working our way through assessing the issues.

We have to look at two things. One is just the requirements under the Monetary Control Act, and there is also just a big policy question which is, is there a role here? There are people who feel strongly that there is a role here for us, and there are others who feel not. So we are having to make a decision on that, and we will be doing that.

Mr. LOUDERMILK. Okay. I appreciate it if you would keep us in the loop on that. We have several parties, especially in Georgia, very interested in the direction you are going.

And so another issue regarding the tailoring of proposals—or the tailoring of regulation for domestic and foreign banks. Now that the comment period is closed, when do you expect final rules on that to be issued on the tailoring of regulations for domestic and foreign banks?

Mr. POWELL. Let me look for foreign—domestic and foreign. Okay. So the comment period for domestic and—I don't have a date for you. I know the—

Mr. LOUDERMILK. I think the comment period has recently closed. I am just wondering—from my understanding, the comment period recently closed on that.

Mr. POWELL. Foreign, it closed in June. For domestic, it closed in January.

Mr. LOUDERMILK. Okay.

Mr. POWELL. I would have to get back to your office on—I think Vice Chair Quarles said that we see most things being wrapped up by the end of the third quarter and darn near everything wrapped up by the end of the year.

Mr. LOUDERMILK. Okay. Do you anticipate the domestic and foreign will be done together?

Mr. POWELL. I don't know—

Mr. LOUDERMILK. Okay.

Mr. POWELL. —to be honest.

Mr. LOUDERMILK. Okay. With the remaining time, one other issue. This is important, especially back in Georgia, small-dollar lending. When the FDIC Chair McWilliamstestified back in May, I asked her if they plan to address a small-dollar lending issue for banks, and she said that she was going to work with the other regulators to get this done.

Is the Fed committed to working with the FDIC and OCC to come up with a plan for the small-dollar lending?

Mr. POWELL. I think we are doing that actually. I think there is an interagency group that is carrying that forward right now.

Mr. LOUDERMILK. Okay. With that, I think we are all ready to end a very long morning. So, I appreciate that.

Madam Chairwoman, thank you for your indulgence, and I yield back.

Chairwoman WATERS. Thank you very much.

I would like to thank Chairman Powell for his testimony today.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

I thank you very much for your patience, Mr. Powell.

This hearing is adjourned.

[Whereupon, at 1:14 p.m., the hearing was adjourned.]

A P P E N D I X

July 10, 2019

For release at
8:30 a.m. EDT
July 10, 2019

Statement by

Jerome H. Powell

Chairman

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

July 10, 2019

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, I am pleased to present the Federal Reserve's semiannual *Monetary Policy Report* to Congress.

Let me start by saying that my colleagues and I strongly support the goals of maximum employment and price stability that Congress has set for monetary policy. We are committed to providing clear explanations about our policies and activities. Congress has given us an important degree of independence so that we can effectively pursue our statutory goals based on objective analysis and data. We appreciate that our independence brings with it an obligation for transparency so that you and the public can hold us accountable.

Today I will review the current economic situation and outlook before turning to monetary policy. I will also provide an update of our ongoing public review of our framework for setting monetary policy.

Current Economic Situation and Outlook

The economy performed reasonably well over the first half of 2019, and the current expansion is now in its 11th year. However, inflation has been running below the Federal Open Market Committee's (FOMC) symmetric 2 percent objective, and crosscurrents, such as trade tensions and concerns about global growth, have been weighing on economic activity and the outlook.

The labor market remains healthy. Job gains averaged 172,000 per month from January through June. This number is lower than the average of 223,000 a month last year but above the pace needed to provide jobs for new workers entering the labor force. Consequently, the unemployment rate moved down from 3.9 percent in December to 3.7 percent in June, close to its lowest level in 50 years. Job openings remain plentiful, and employers are increasingly willing to hire workers with fewer skills and train them. As a result, the benefits of a strong job market have been more widely shared in recent years. Indeed, wage gains have been greater for lower-skilled workers. That said, individuals in some demographic groups and in certain parts of the country continue to face challenges. For example, unemployment rates for African Americans and Hispanics remain well above the rates for whites and Asians. Likewise, the share of the population with a job is higher in urban areas than in rural communities, and this gap widened over the past decade. A box in the July *Monetary Policy Report* provides a comparison of employment and wage gains over the current expansion for individuals with different levels of education.

Gross domestic product increased at an annual rate of 3.1 percent in the first quarter of 2019, similar to last year's pace. This strong reading was driven largely by net exports and inventories—components that are not generally reliable indicators of ongoing momentum. The more reliable drivers of growth in the economy are consumer spending and business investment. While growth in consumer spending was weak in the first quarter, incoming data show that it has bounced back and is now running at a solid pace. However, growth in business investment seems to have slowed notably, and overall growth in the second quarter appears to have moderated. The slowdown in business fixed investment may reflect concerns about trade tensions and slower growth in the global economy. In addition, housing investment and manufacturing output declined in the first quarter and appear to have decreased again in the second quarter.

After running close to our 2 percent objective over much of last year, overall consumer price inflation, measured by the 12-month change in the price index for personal consumption expenditures (PCE), declined earlier this year and stood at 1.5 percent in May. The 12-month change in core PCE inflation, which excludes food and energy prices and tends to be a better indicator of future inflation, has also come down this year and was 1.6 percent in May.

Our baseline outlook is for economic growth to remain solid, labor markets to stay strong, and inflation to move back up over time to the Committee's 2 percent objective. However, uncertainties about the outlook have increased in recent months. In particular, economic momentum appears to have slowed in some major foreign economies, and that weakness could affect the U.S. economy. Moreover, a number of government policy issues have yet to be resolved, including trade developments, the federal debt ceiling, and Brexit. And there is a risk that weak inflation will be even more persistent than we currently anticipate. We are carefully monitoring these developments, and we will continue to assess their implications for the U.S economic outlook and inflation.

The nation also continues to confront important longer-run challenges. Labor force participation by those in their prime working years is now lower in the United States than in most other nations with comparable economies. As I mentioned, there are troubling labor market disparities across demographic groups and different parts of the country. The relative stagnation of middle and lower incomes and low levels of upward mobility for lower-income families are also ongoing concerns. In addition, finding ways to boost productivity growth, which leads to rising wages and living standards over the longer term, should remain a high national priority. And I remain concerned about the longer-term effects of high and rising federal debt, which can restrain private investment and, in turn, reduce productivity and overall economic growth. The longer-run vitality of the U.S. economy would benefit from efforts to address these issues.

Monetary Policy

Against this backdrop, the FOMC maintained the target range for the federal funds rate at 2-1/4 to 2-1/2 percent in the first half of this year. At our January, March, and May meetings, we stated that we would be patient as we determined what future adjustments to the federal funds rate might be appropriate to support our goals of maximum employment and price stability.

At the time of our May meeting, we were mindful of the ongoing crosscurrents from global growth and trade, but there was tentative evidence that these crosscurrents were moderating. The latest data from China and Europe were encouraging, and there were reports of progress in trade negotiations with China. Our continued patient stance seemed appropriate, and the Committee saw no strong case for adjusting our policy rate.

Since our May meeting, however, these crosscurrents have reemerged, creating greater uncertainty. Apparent progress on trade turned to greater uncertainty, and our contacts in business and agriculture report heightened concerns over trade developments. Growth indicators from around the world have disappointed on net, raising concerns that weakness in the global economy will continue to affect the U.S. economy. These concerns may have contributed to the drop in business confidence in some recent surveys and may have started to show through to incoming data.

In our June meeting statement, we indicated that, in light of increased uncertainties about the economic outlook and muted inflation pressures, we would closely monitor the implications of incoming information for the economic outlook and would act as appropriate to sustain the expansion. Many FOMC participants saw that the case for a somewhat more accommodative monetary policy had strengthened. Since then, based on incoming data and other developments, it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook. Inflation pressures remain muted.

The FOMC has made a number of important decisions this year about our framework for implementing monetary policy and our plans for completing the reduction of the Fed's securities holdings. At our January meeting, we decided to continue to implement monetary policy using our current policy regime with ample reserves, and emphasized that we are prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments. At our March meeting, we communicated our intention to slow, starting in May, the decline in the Fed's aggregate securities holdings and to end the reduction in these holdings in September. The July *Monetary Policy Report* provides details on these decisions.

The July *Monetary Policy Report* also includes an update on monetary policy rules. The FOMC routinely looks at monetary policy rules that recommend a level for the federal funds rate based on inflation and unemployment rates. I continue to find these rules helpful, although using these rules requires careful judgment.

We are conducting a public review of our monetary policy strategy, tools, and communications—the first review of its kind for the FOMC. Our motivation is to consider ways to improve the Committee's current policy framework and to best position the Fed to achieve maximum employment and price stability. The review has started with outreach to and consultation with a broad range of people and groups through a series of *Fed Listens* events. The FOMC will consider questions related to the review at upcoming meetings. We will publicly report the outcome of our discussions.

Thank you. I am happy to respond to your questions.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Joyce Beatty:

1. In the 105th Annual Report of the Board of Governors of the Federal Reserve System, it states there are 9 savings and loan holding companies primarily engaged in insurance underwriting activities regulated by the Federal Reserve. I bring this to your attention because in a similar report produced for 2011, there were 26 savings and loan holding companies primarily engaged in insurance underwriting activities.

As you know, The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, P.L. 111-203, transferred the responsibility of supervision and regulation of these insurance companies to the Federal Reserve. In the nine short years since Congress gave this authority to the Federal Reserve, nearly 65% of these insurance companies have closed or sold their depository institution and exited Federal Reserve supervision and regulation. For example, in 2012 there were only 21 of these companies, in 2013 there were only 15, in 2015 only 12, in 2017 down to 11 and last year down to 9.

It is indisputable that there has been a steady decline in the number of these insurance companies under Federal Reserve supervision and regulation since the Federal Reserve took over this authority in 2010. This includes Nationwide Insurance from my district, who announced they were closing their depository institution last year.

I am urging you to create a working group within the Federal Reserve to take a closer look at how your institution can further tailor your existing regulations for these insurance companies before there are none left, unless it is your intention to ensure there are no savings and loan holding companies primarily engaged in insurance underwriting activities, in which case, I would ask you to provide your rational. Would you consider creating a working group? Why or why not?

The Federal Reserve Board's (Board) principal supervisory objective for consolidated supervision of Insurance Savings and Loan Holding Companies (ISLHCs) is ensuring that they operate in a safe and sound manner so that the subsidiary insured depository institution is protected from risks related to nonbanking activities, including insurance. In applying our consolidated supervision, we work to ensure that regulations, supervisory guidance, and expectations are appropriately tailored to account for the unique complexities and characteristics of ISLHCs. We also continue to identify opportunities to improve coordination and cooperation with state insurance regulators in order to reduce regulatory burden on supervised firms while still fulfilling the Federal Reserve's supervisory mandate.

As required under the Economic Growth, Regulatory Relief, and Consumer Protection Act, the Board is in the process of establishing the Insurance Policy Advisory Committee (IPAC) and published an application for IPAC membership in the Federal Register on July 3, 2019. The IPAC will be comprised of a diverse group of up to 21 insurance experts to provide information, advice, and recommendations to the Board on both domestic and international insurance topics. The first IPAC meeting is scheduled for November 4, 2019. We hope the IPAC will provide an external view of the potential impact of any further revisions to our supervisory framework.

2. I am growing more concerned about the growing geographic and demographic diversity issues in the venture capital industry in this country and the potential effects of exacerbating the wealth gap and leaving whole communities behind. Roughly 80% of current venture capital investment is invested in four states - California, New York, Massachusetts and Texas- compared to 50% in 1995. Meanwhile, businesses co-founded by women and minorities continue to be left out of venture capital investment. In 2017, venture capital investment went to only 9% of businesses co-founded by women, only 1.9% of businesses co-founded by Latinos and only 1 % of businesses co-founded by African Americans.

What are your thoughts on these figures? Do you believe venture capital, a growing source of private equity capital for businesses, has the potential or already has exasperated the wealth gap?

The level of venture capital investment, as measured by dollar volume, has become more geographically concentrated over time, as statistics show large dollar investments being made in a small number of companies, many of which are headquartered in California, New York, Massachusetts and Texas. That said, given that the location of the venture capital investment is based on the headquarters of the company receiving funding, it is relevant to also consider that the investment funds may be disbursed over a broader geographic area, spreading the impact beyond the location of the company headquarters. Data on the number of venture capital investments per state show somewhat less concentration than the level of funding, with about 60 percent of investments occurring in the California, New York, Massachusetts and Texas in 2018.

The level of venture capital investment in business co-founded by women is low, but it has been increasing in recent years. In 2006, about 4 percent of investment was in companies with at least one female founder, but by 2018 about 12 percent of investment was in business co-founded by women. The number of venture capital investments going to businesses co-founded by women has also increased, from about 6 percent in 2006 to about 19 percent in 2018.

To better understand the factors that could affect the macro-economy, the Federal Reserve will continue to monitor trends related to business investment and its effect on the concentration of wealth.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Ted Budd:

1. Chairman Powell: At a time when the Federal Reserve is contemplating in engaging in functions currently undertaken by the private sector, isn't it time that we take a look at the regulatory processes for independent agencies?

In past Congresses, with bipartisan support, we have seen the introduction of legislation that authorizes the President to require that independent agencies apply the same cost benefit process that Presidents have required of other agencies for many years.

Why should independent agencies such as the Federal Reserve issue major rules without a publicly available quantitative cost benefit analysis?

The Federal Reserve Board (Board) takes seriously the importance of evaluating the costs and benefits of its rulemaking efforts. Under the Board's current practice, consideration of costs and benefits occurs at each stage of the rulemaking process. The Board's proposed and final rules include a discussion of the expected impact of the rule, and the Board seeks comment on its proposals, including on potential costs and benefits. In addition to seeking comment on its proposals, the Board generally collects information directly from parties that may be affected.

Recently, the Board has published quantitative analyses in connection with a number of rulemakings, i.e. the global systemically important banks surcharge rule, the single-counterparty credit limit rule, and the long-term debt rule. In addition, to further these efforts and to ensure consistency and rigor in analyzing the impact of its proposed and final rules, the Board's Division of Supervision and Regulation established a unit dedicated to analyzing the costs and benefits associated with rulemakings.

By considering both direct and indirect costs and benefits and qualitative considerations, the Board's current process supports the effective implementation of the Board's statutory responsibilities.

2. With the creation of the Faster Payments Task Force and the Federal Reserve's goal of achieving ubiquity of a real-time settlements system amongst industry participants, would the Federal Reserve mandate industry compliance to achieve this goal? Why or why not?

The Board does not have plenary regulatory or supervisory authority over the U.S. payment system. Instead, the Federal Reserve has historically exercised significant influence in the U.S. payment system through the Reserve Banks' provision of payment and settlement services to banks. This operational role has helped to promote payment systems in the United States that are ubiquitous, safe, and efficient.

3. In the Request for Comment on the services, the Federal Reserve cited several examples of private sector faster payments services that have emerged in the United States in recent years.

Have you concluded that the private sector cannot achieve the objectives that you seek to achieve with the services?

The Board's evaluation of Reserve Bank service proposals, such as the FedNow^{SM} Service, is subject to the requirements of the Monetary Control Act of 1980 (MCA) and longstanding Federal Reserve policies and processes. The Board's policy for evaluating new services was carefully tailored to consider factors that are most relevant in assessing the costs and benefits of the service. Specifically, the Board assesses whether the Federal Reserve will achieve full cost recovery over the long run, whether the service will yield a clear public benefit, and whether the service is one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity. In addition, the Board performs a competitive impact analysis when considering an operational or legal change to a Reserve Bank service or price that would have a direct and material adverse effect on the ability of others to compete with the Reserve Banks.

With respect to the FedNow Service, the Board has concluded that private-sector real-time gross settlement services (RTGS) for faster payments alone cannot be expected to provide an infrastructure for faster payments with reasonable effectiveness, scope, and equity. In particular, private-sector services are likely to face significant challenges in extending equitable access to the more than 10,000 diverse banks across the country. The Board also concluded that the development of the FedNow Service will likely yield clear and substantial benefits to the safety and efficiency of faster payments in the United States, as suggested by the majority of comments in response to the Board's previous request for comment. Additionally, the Board concluded that the Federal Reserve will achieve full cost recovery over the long run for the FedNow Service and, as required by the MCA for Federal Reserve services overall.

The Board's assessment of the planned FedNow Service pursuant to the requirements of the MCA and the Board's criteria for new services and major service enhancements, proposed features and functionality for the service, and initial competitive impact analysis of the service can be found in its August 2019 *Federal Register* Notice.[1]

4. Could the Federal Reserve achieve its objectives without offering the services but rather by making changes to its current infrastructure, for example by expanding the operating hours of the National Settlement Service or enhancing the Automated Clearing House's same-day payment capabilities?

In the August 2019 Federal Register notice announcing the Board's decision regarding the FedNow Service, the Board also expressed its intent to explore the expansion of hours for the Fedwire Funds Service and the National Settlement Service (NSS), up to 24x7x365, subject to further analysis of relevant operational, risk, and policy considerations. The expansion would support liquidity management in private-sector RTGS services for faster payments, as well as provide additional benefits to financial markets beyond faster payments. In May of this year, the

[1] https://www.federalreserve.gov/newsevents/pressreleases/files/other20190805a1.pdf.

Board also requested comment on expanding the hours of the Fedwire Funds Service (ACH) and NSS to accommodate an additional automated clearing house same-day settlement window.[2]

While expanded hours are expected to foster improvements to the broader U.S. payment system, the Board believes expanded hours alone will not accomplish the goal of safe, efficient and nationwide access to real-time payment services in the United States. The FedNow Service will be designed and built to achieve real-time payments anywhere and at any time.

5. If the Federal Reserve decides to offer the real-time payment service, what role do you foresee the private sector having in the process, and how would the Federal Reserve collaborate with the private sector to ensure interoperability?

Finally, as a regulator of depository institutions and their holding companies, how would you ensure that it does not exert undue influence over them to use the services?

During its engagement with the industry, the Federal Reserve fully intends to pursue interoperability and other paths to achieving the ultimate goal of nationwide reach for faster payments. Although direct exchange of payments between RTGS infrastructure operators may not be an initial element of the FedNow Service, the Federal Reserve would continue to pursue interoperability as a longer-term objective as standards, technology, and industry practices evolve.

Within the Federal Reserve, supervisory activities are internally segregated from payment services activities. Supervisory staff do not steer banks to specific payment service providers, Federal Reserve or otherwise. In addition, internal policy prevents payment services staff from having a competitive advantage through access to supervisory information.

Moreover, the MCA requires that Federal Reserve services must be priced competitively and encourages competition between the Reserve Banks and the private sector through an expectation that, over the long run, the Reserve Banks will recover their actual costs of services. The FedNow Service, operating alongside private-sector RTGS services would give banks the option of choosing a service or connecting to more than one service, a choice they have today for all existing payment services, including funds transfers, ACH, checks, and debit and credit cards.

[2] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190509b.htm.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Cleaver:

Can you provide an assessment of how trade policies are impacting the agriculture market-specifically the US Soybean industry?

The U.S. agricultural economy has remained in a prolonged downturn since 2013 due, in part, to persistently low agricultural commodity prices. Following a significant increase from 2000 to 2013, real net U.S. farm income dropped by about 50 percent from 2013 to 2016, and it has remained relatively flat in recent years. Similarly, the prices of major agricultural commodities, such as corn and soybeans, are about 40 to 50 percent lower than in 2013 due to reduced demand growth and elevated supplies.

Global export markets represent an important source of demand for U.S. agricultural commodities, such as corn and soybeans. From 2000 to 2014, U.S. agricultural exports increased by almost 300 percent, with significant increases in exports to China. Since 2014, however, U.S. agricultural exports have weakened, and they have declined more notably the past two years alongside ongoing trade negotiations and reduced soybean exports to China. In 2018, the value of U.S. soybean exports to China dropped by approximately 75 percent compared with the previous year, and the pace of exports in the first half of 2019 has remained unchanged from a year ago.

U.S. farm income is expected to remain relatively weak in 2019, with reduced exports putting downward pressure on the price of some agricultural commodity prices. The price of U.S. soybeans dropped by about 25 percent in July 2018 alongside increased tariffs on U.S. soybean exports to China and has remained at a similar level, on average, in recent months. As the value of U.S. crop production accounts for nearly half of the value of U.S. agricultural production, with corn and soybeans comprising a large share of the U.S. crop mix, developments in these markets are likely to have a significant impact on future economic prospects in the U.S. agricultural sector.

Facebook Libra

When David Marcus, head of Calibra at Facebook, testified to the United States House of Representatives on July 17, 2019, he noted that "the Association will work with the Federal Reserve and other central banks to minimize the risk of any competition with their currencies or interference with their monetary policy. These are areas properly the province of central banks."

- **What conversations have taken place between the Libra Association and the Federal Reserve either before or after this assurance was given by Marcus? Is there a roadmap for future conversations? What have been the takeaways from those conversations, if they have occurred?**

Facebook representatives met with Governor Brainard and Board staff on May 22, 2019. Additionally, Vice Chair Quarles and Board staff met with Mr. Marcus on October 16, 2019. Federal Reserve staff have also met with representatives from Facebook and Libra in the context of broader meetings with other U.S. agencies and international groups.

Significant outstanding questions remain and we expect to engage further with Facebook and/or Calibra directly once they are prepared to describe the project in greater detail. In the interim, we will participate in any discussions with Facebook entailed in interagency and international group work efforts to determine if its thinking has advanced.

In your testimony to the Committee, on the subject of Libra, you said that "We're coordinating with central banks and governments around the world to look into this."

- **Can you share further details about these conversations? Do other countries' central banks seem to view this development as a major source of concern?**
- **Have conversations taken place with the central banks of developing countries where adequate control of monetary policy is already a major risk? Is concern about Libra higher or lower in developing countries? If a developing country were to experience a high degree of inflation, what would prevent Libra from usurping the domestic currency as a more stable option for trade?**

G7 central banks, in collaboration with Bank for International Settlements Committee on Payments and Market Infrastructures (BIS CPMI), and the International Monetary Fund (IMF), have a stablecoins workstream under way. The G20 has tasked the Financial Stability Board with further related work that includes a broader set of central bank participants and the IMF. Our impression is that there is widespread interest in better understanding the details of the Libra proposal. Overall, central bankers and other regulators have expressed an interest in understanding the specific activities that one or more parts of the Libra ecosystem will conduct, in order to ensure that those activities are safely executed and appropriately overseen. In particular, there is concern about opportunities to use Libra for money laundering or other illegal activity. Similarly, as the Libra proposal entails a global payment system, there are many questions regarding the resilience of the potential system, including its ability to prevent and withstand operational, credit, and liquidity disruptions, and its impact on financial stability. We are attuned to potential implications for monetary policy conduct and transmission, but further details about the project are necessary to draw conclusions.

In your testimony to the Committee, when questioned about Libra, you said that "These are concerns that should be thoroughly and publicly addressed before proceeding; and that's why at the Fed, we've set up a working group to be focused on -- on the set of issues."

- **Are you able to provide us any additional details about who is involved in this Federal Reserve working group and what conversations have taken place? Is there a timeline as to when this working group might have recommendations or thoughts that can be shared externally?**

The Federal Reserve has set up a multidisciplinary working group comprised of Board and System staff to analyze risk and policy implications of the Libra proposal. Areas of focus include monetary policy, payment system risks, consumer protection, Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance, and financial stability. Additionally, the working group has been meeting with other regulators, both domestic and international.

The working group is still in its early phases of analysis, and many questions regarding the implementation of Libra remain.

In your testimony to the Committee, you also said about Libra that "I think it's -- it's something that doesn't fit neatly or easily within our regulatory scheme. It does have potentially systemic scale and for all the reasons we've discussed, it needs a careful look and so I strongly believe we -- we need to all be taking our time here." '

- **What safeguards do you believe might help limit the potential systemic risk that Libra might pose?**
- **When looking to the unclear regulatory scheme that currently exists, what questions do you think need to be answered for us to move to a world in which the regulatory scheme is more straightforward? How can Congress continue to work with regulators and other federal institutions to best find ways to address these questions?**
- **If Libra were to launch today, which current prudential regulators would presently have the clearest regulatory oversight? What challenges would those institutions face in appropriately regulating this area under current law?**

We understand that the Libra initiative aims to create a globally-accepted medium of exchange tied to a pool of assets and a distribution and market-making infrastructure that integrates with exchanges, enables end-to-end payments, and permits various types of "wallet" providers to interface with consumers. Identifying the appropriate statutory or regulatory safeguards, any gaps that may currently exist, and the extent of regulatory agency authorities will require more information about Libra coin functions, the roles played by various entities in the ecosystem, and the rights associated with holding Libra coins. In many instances, it appears that the relevant details have yet to be developed by Facebook or the Libra Association. Greater clarity regarding the proposal also will allow agencies to assess the systemic importance of Libra, including the risks presented by Libra and the governance and risk management that would need to be employed to appropriately mitigate those risks and to adapt to changing conditions.

Fed Independence Questions

As I noted in my opening statement, I am concerned about the level of independence of the Federal Reserve in relation to the Executive Branch

- **Have you or any member of the Board been directly or indirectly asked to reduce interest rates by any member of the White House or the Department of Treasury publicly or privately?**

    - **If yes, please express when each instance occurred, the circumstances surrounding the request, and the person who initiated contact with the Board.**

- **Have you or any member of the Board coordinated with the White House or Treasury on any matter related to FOMC processes, or decision making?**
    - **If yes, please express when each instance occurred, the circumstances surrounding the request, and the person who initiated contact with the Board.**

- **Has any member of the Trump Administration requested the Federal Reserve reduce, remove or alter bank regulations?**
    - **If yes, please express when each instance occurred, the circumstances surrounding the request and the person who initiated contact with the Board.**

- **If the answer is no to any or all of these questions, would the Board commit to reporting to my subcommittee and the Full Committee within 24 hours if and when any such request is made?**

The independence that Congress granted the Federal Reserve is a hallmark of our institution and allows us to pursue policies that are appropriate for the health and safety of the U.S. economy and its banking system, but which could be politically unpopular or difficult. Preserving the Federal Reserve's independence is essential for us to achieve our congressionally-mandated goals of maximum employment and price stability.

As Chair, I have continued our tradition of independence and nonpartisanship by fostering an environment that supports objective analysis and research, and promoting a culture in which policymakers express their viewpoints and political considerations are not a part of the decision-making process.

Consistent with my long-standing principles and with the principles of Board Chairs before me, I do not share the details of my private conversations with other government officials.

But, let me assure you that my colleagues and I are committed to pursuing our congressionally mandated goals without regard to political considerations. We make the best decisions we can in the interest of the public.

Real-Time Payments Questions

What is the Federal Reserve's timeline for implementing Real time payments?

Where is the Board at in this process?

Will the Board commit to providing my subcommittee periodic updates on milestones toward implementation?

The Board announced on August 5, 2019, that the Reserve Banks will develop a new real-time payment and settlement service, called the FedNow^{SM} Service, to support faster payments in the United States.[2] That announcement was paired with the issuance of a Federal Register Notice that requests public comment on a variety of potential ways the new service might be designed to most effectively support the full set of payment system stakeholders and the functioning of the broader U.S. payment system. The comment period closed on November 7, 2019. All comments received will be carefully and thoroughly reviewed.

The Federal Reserve recognizes that establishing the FedNow Service needs to be carried out as soon as practicably possible and that time-to-market is an important consideration for many industry participants. However, the achievement of true nationwide reach, as opposed to initial availability of a service, is a critical measure of success for faster payments. Although this timeline may be adjusted following engagement between the Federal Reserve and the industry that will inform the final service design, the FedNow Service is expected to be available in 2023 or 2024. However, it will likely take longer for any service, whether the FedNow Service or a private-sector service, to achieve nationwide reach. In advance of the service's availability, the Federal Reserve will work closely with banks and their technology partners to prepare for expeditious onboarding.

We are committed to keeping the Committee informed of the progress on the FedNow Service and to a high level of transparency and engagement with all stakeholders through the development of the FedNow Service.

Minority Access to Credit Questions

How is the Federal Reserve and FOMC working to enhance minority access to credit?

Has the Board conducted any recent analysis on the innovative approaches to enhance access to credit lines for historically disadvantaged groups?

- **If yes, how has that analysis been incorporated into the Board and FOMC policymaking?**
- **If no, would the Board commit itself to conducting such analysis?**

Fair and equal access to credit is essential to a well-functioning economy and to ensuring that individuals can acquire assets that advance their financial well-being, from auto loans and mortgages to student and small business loans. By statute, the Federal Reserve conducts monetary policy to achieve the long-run objectives of maximum employment and stable prices. Pursuit of these objectives likely supports other important public policy objectives such as enhancing access to credit for specific groups, but the effects of monetary policy along this dimension are indirect. That said, the U.S. economy is now in the longest period of sustained economic expansion ever recorded with the overall unemployment rate at the lowest level in 50 years. Moreover, unemployment rates across all major demographic groups are at or near historically low levels. These trends have helped to bolster the financial position of all Americans, including many of those that suffered the most in the wake of the financial crisis and

[2] See https://www.federalreserve.gov/newsevents/pressreleases/other20190805a.htm.

the ensuring steep economic downturn. Strengthening the financial position and employment prospects of workers, in turn, has also helped to support improvements in credit scores and related criteria that are often important in determining access to credit for many households and businesses.

Apart from monetary policy, the Federal Reserve is deeply involved in matters pertaining to access to credit in a more direct way through our responsibilities in the areas of bank supervision and consumer compliance.

The Federal Reserve's consumer compliance supervisory programs promote a fair and transparent financial services marketplace and encourage community reinvestment. We engage in significant outreach to understand the challenges inherent in providing access to credit and other financial services to historically disadvantaged groups. In particular, the Federal Reserve's fair lending supervisory program reflects our commitment to ensuring that the financial institutions under our jurisdiction fully comply with applicable federal fair lending laws and regulations. For all state member banks, we enforce the Fair Housing Act through our review for potential discrimination in mortgages, including potential redlining, pricing, and underwriting discrimination. For state member banks of $10 billion dollars or less in assets, we also enforce the Equal Credit Opportunity Act (ECOA), reviewing these state member banks for potential discrimination in any credit product. Together, these laws prohibit discrimination on the basis of race, color, national origin, sex, religion, marital status, familial status, age, handicap/disability, receipt of public assistance, and the good faith exercise of rights under the Consumer Credit Protection Act.

In addition, our authorities also include regulatory and supervisory responsibilities under the Community Reinvestment Act (CRA), which encourages banks to help meet the credit needs of the communities they are chartered to serve, including low- and moderate-income neighborhoods. Currently, the agencies are considering ways to modernize CRA rules and supervision to recognize developments in banking markets and delivery of products and services, as well as enhance its effectiveness. Furthermore, we review banks' CRA and consumer compliance records when evaluating applications to expand through mergers or acquisitions and branching by evaluating how the institutions meet the convenience and needs of the communities to be served through the transaction.

Climate Change

In March, the Federal Reserve Bank of San Francisco, provided an economic assessment of climate change's impact and underscored the efficacy of central banks including climate change in their monetary and financial supervisory policy.

- **Does the Board concur with this analysis? Why or why not?**

On March 25, 2019, staff of the Federal Reserve Bank of San Francisco (FRBSF) published an Economic Letter, titled "Climate Change and the Federal Reserve." This publication, as with all FRBSF Economic Letters, reflects the views of the author. Economists at the Board and the regional Federal Reserve Banks have contributed research on issues about and related to climate change. The research is attributed to the individual economists and is not an official finding of the Federal Reserve.

- **How has the Board of Governors and the FOMC incorporated these findings and the broader issue of Climate Change in their economic analysis?**

Changes in weather patterns that affect the economic data on which our analysis of the economy is based—including the trends and the cyclical behavior of investment, production, and consumption—will be incorporated in our macroeconomic analysis over time.

We also specifically take into account the severity of weather events in assessing current economic conditions as part of our deliberations about the appropriate stance of monetary policy. For example, our staff has relied on data from the Federal Emergency Management Agency and the Department of Energy to gauge the disruptions to oil and gas extraction, petroleum refining, and petrochemical and plastic resin production in the wake of hurricanes that affected the Gulf region. Our staff regularly uses daily measures of temperatures and snowfall from National Oceanic and Atmospheric Administration (NOAA) weather stations to understand better how severe weather may be affecting measured and real economic activity in specific areas. Our understanding of what economic activities will be impacted by a severe weather event depends critically on data produced by the federal statistical agencies, such as the United States Census Bureau's County Business Patterns data. Those data provide information on economic activity in different geographic locations. In addition, our staff uses credit and debit card transactions data for gauging how specific types of severe weather might be affecting consumer spending in areas affected by those events.

Has the Board conducted any analysis on the macroeconomic effects of climate change? If so, what were the findings? If not, would the Board be willing to conduct such research?

The Board conducts an active research program on a broad array of topics in the fields of economics and finance. As part of this broader research mission, research staff write working papers and publish articles in peer-reviewed journals. This research includes studies on a number of topics that pertain to modeling the economic effects of severe weather events; modeling uncertainty and risks from such events in financial markets; estimating the effects of these events on consumer and business activity, as well as on local and aggregate real estate markets. Additionally, outside researchers are invited regularly to present to staff economic and financial research on numerous topics, including research related to severe weather events. More broadly, Federal Reserve staff remain engaged and stay informed of new economic research on any longer-term risks to the U.S. economy or the U.S. financial system.

Has the Federal Reserve System conducted any analysis on its environmental footprint? If yes, what were the findings? If no, would the Board be willing to commit itself to such analysis?

While the Board has not conducted such analysis, we will voluntarily undergo environmental impact analysis as we seek Leadership in Energy and Environmental Design (LEED) certification through our plans to renovate Board-owned buildings over the next several years.

Additionally, the Board has voluntarily undertaken many initiatives to operate in an environmentally sustainable manner. Some initiatives include:

- The Board's leased spaces are either LEED Gold or Silver certified.
- Energy efficient LED fixtures and natural gas boilers have been installed in Board-owned buildings.
- Board-owned buildings have single-stream recycling programs that have contributed to achieving 32 percent waste diversion from landfill.
- Over half of the Board vehicles operate on flex-fuel, a mixture of 85 percent ethanol and 15 percent gasoline. Additionally, we operate one Hybrid and ten fully electric vehicles.
- The Board is committed to using green products including green cleaning products and zero volatile organic compound interior paints.
- The Board's food service vendor uses biodegradable paper products.
- The Board provides its employees and contractors with training opportunities on environmental and sustainable practices.
- In 2018, the Board purchased its electricity from a GSA cooperative, and 15 percent of our energy came from renewable sources.
- The Board uses Energy Star–qualified computers and monitors.

In addition, we anticipate significant environmental performance improvements in Board-owned buildings once renovations complete. We will continue to consider effective technologies, procedures and processes in our operations and planning.

Does the Board, through its supervisory authority, have the capacity to collect data from its regulated entities on their environmental impact?

Congress has granted the Board authority to examine and require reports from its regulated entities, such as bank holding companies, savings and loan holding companies, and state member banks, about their operations. This authority generally extends to matters that could pose a threat to the safety and soundness of a regulated entity or U.S. financial stability. To the extent that the environment impact of regulated entities' operations fall within the scope of these provisions, the Board would have the authority to collect data from those entities regarding this environmental impact.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Cleaver:</u>

Tariffs / Trade Questions

Were you or any member of the Board consulted by any member of the administration on trade policy or the implementation of tariffs?

- **If yes, please explain the context, the means of communication, the substance of that communication and individuals who communicated.**

Please define a trade war and define the economic effects of a trade war on the U.S. Economy.
Do you believe trade wars are good and easy to win? Why or why not?

Who are those most likely to be harmed in a trade war?

Would you consider the US engaged in a trade war? Why or why not?

Do market participants believe the US to be engaged in a trade war?

- **If yes, how have you arrived at that determination?**
- **If no, how have you arrived at that determination?**

What are some of the broader economic impacts of a protracted trade war?

Do you believe that the tariffs that have been imposed within the past two years are generating massive payments and offsetting the loss to the US economy?

- **Is there any significant body of data to support the claim that the costs associated with recently imposed tariffs are being offset? If yes, what is this data? If not, what does the data reflect on this point?**

A recent report by researchers at the <u>New York Federal Reserve</u> titled 'New China Tariffs Increase Costs to U.S. Households' noted that new tariffs on Chinese goods are likely to create large economic distortions and reduce U.S. tariff revenue.

- **Does the Board concur with the finding of the Federal Reserve Bank of New York?**
- **How have these findings influenced FOMC and Federal Reserve policy decisions?**

Has the Federal Reserve evaluated the domestic and/or international costs associated with the tariffs imposed by the United States and retaliatory tariffs?

- **If yes, what were the findings? If no, will the Federal Reserve conduct that research and report on the findings?**

What is the net effect of retaliatory tariffs targeting the US?

- **What impact will that have on US economic growth?**

AEI's Dr. Bergsten, noted that the Trump Administration's efforts to reduce US imports from China through tariffs are likely to lead market forces to push the dollar up and China's Renminbi (RMB) down, at least in the short run, offsetting their impact on the overall balance.

- **How have the Trump administration's tariffs and broader economic policies impacted domestic and international currency markets?**
- **What will the future impact to these markets be?**

How have market participants responded to these unexpected tariff and trade announcements by the Trump Administration?

- **How could this volatility impact retirees, pension funds and average citizens savings?**
- **What might we expect capital markets to do if the tariffs became prolonged even further?**

How might markets be impacted if existing tariff policies were removed?

The New York Federal Reserve found that tariffs in effect in 2018 cost the average household $414, which could grow to $831 with the recent 15% increase on Chinese imports. Researchers from the Federal Reserve Bank of New York, Columbia University and Princeton University stated, "We find that the U.S. tariffs, were almost completely passed through into U.S. domestic prices, so that the entire incidence of the tariffs fell on domestic consumers and importers up to now, with no impact so far on the prices received by foreign exporters. We also find that U.S. producers responded to reduced import competition by raising their prices."

Can you explain why these costs would be transferred to American consumers?

On what products are Americans seeing a spike in prices?

On what products are Americans likely to see a spike in prices in the future?

How are consumers likely to be impacted if the trade war becomes protracted?

Why do American businesses so strongly oppose current tariff policies? What will be the impacts on them if they are not reversed?

If American companies face higher costs due to these tariffs, what impact will that have on domestic consumers?

If companies must switch to more expensive non-Chinese suppliers for their supply chains, how easy will it be to make that switch? Would we expect significant costs for that transition? Would switching back to Chinese suppliers in the future pose a significant cost challenge for some?

The answer that follows responds to your questions above.

As you know, matters of trade policy are the responsibility of Congress and the Administration. The Federal Reserve has no role in the formulation of trade policy. Our focus is on our congressionally-mandated goals of maximum employment and stable prices.

International trade significantly affects the U.S. economy and, thus, to best achieve our mandate we take into account trade developments, along with many other factors, in forming our views of the economic outlook and in setting monetary policy. Tariff increases over the past two years, by both the United States and other countries, have affected individual businesses and industries. Some businesses face higher input costs, and prices have increased for some consumer goods. Certain sectors, notably the farm economy, have been hurt by reduced export opportunities. Although the direct effects of announced trade policy measures on the overall U.S. economy are not likely to be large, there is a possibility of more significant effects if trade tensions disrupt supply chains and undermine business confidence.

While we look through the daily ups and downs of trade negotiations, it appears that trade developments are contributing to the global slowdown and to weak manufacturing and capital spending in the United States. For some time we have heard from our business contacts around the country that uncertainty about trade developments has negatively affected their willingness to invest in expanding their businesses, and we have seen a notable slowdown in business investment at the national level so far this year.

The effects of tariffs and trade policy uncertainty can be difficult to quantify. Economists at the Board of Governors (Board) and the regional Federal Reserve Banks have contributed research to the ongoing academic debate on these issues. This research is that of the individual economists and is not an official finding of the Federal Reserve.

One such paper that you cite, written by a Federal Reserve Bank of New York economist and academic co-authors, looks at the incidence of U.S. tariff increases. The study examines potential costs that trade barriers can impose on domestic consumers. One factor that could mitigate the impact on consumers is if foreign exporters cut their selling price to domestic importers, such that the foreign exporter bears part of the cost of the tariff. The authors find, however, that in fact, the overall tariff-inclusive price paid by U.S. importers rose as much as did tariffs, but it is unclear how this increase is distributed between U.S. firms and households.

As we strive to extend the current U.S. economic expansion, we will continue to monitor trade developments and other factors that affect the U.S. economy.

Can you provide an assessment of how trade policies are impacting the agriculture market- specifically the US Soybean industry?

The U.S. agricultural economy has remained in a prolonged downturn since 2013 due, in part, to persistently low agricultural commodity prices. Following a significant increase from 2000 to 2013, real net U.S. farm income dropped by about 50 percent from 2013 to 2016, and it has remained relatively flat in recent years. Similarly, the prices of major agricultural commodities, such as corn and soybeans, are about 40 to 50 percent lower than in 2013 due to reduced demand growth and elevated supplies.

Global export markets represent an important source of demand for U.S. agricultural commodities, such as corn and soybeans. From 2000 to 2014, U.S. agricultural exports increased by almost 300 percent, with significant increases in exports to China. Since 2014, however, U.S. agricultural exports have weakened, and they have declined more notably the past two years alongside ongoing trade negotiations and reduced soybean exports to China. In 2018, the value of U.S. soybean exports to China dropped by approximately 75 percent compared with the previous year, and the pace of exports in the first half of 2019 has remained unchanged from a year ago.

U.S. farm income is expected to remain relatively weak in 2019, with reduced exports putting downward pressure on the price of some agricultural commodity prices. The price of U.S. soybeans dropped by about 25 percent in July 2018 alongside increased tariffs on U.S. soybean exports to China and has remained at a similar level, on average, in recent months. As the value of U.S. crop production accounts for nearly half of the value of U.S. agricultural production, with corn and soybeans comprising a large share of the U.S. crop mix, developments in these markets are likely to have a significant impact on future economic prospects in the U.S. agricultural sector.

Questions for The Honorable Jerome H. Powell, Board of Governors of the Federal Reserve System from Representative Cleaver:

Foreign Banking

15. In the Board's recent Foreign Banking Organization (FBO) tailoring proposal, why was a decision made to combine U.S. operation assets outside of the intermediate holding company (IHC), such as branch assets, into the regulation of the intermediate holding company (IHC)?

• Does the Board believe those IHCs were not sufficiently ring-fenced in compliance with Dodd-Frank?

• Would this result in a double counting of these assets - once in the home country and again in the U.S.?

• Please explain why the Board is considering the use of risk-based indicators (RBIs)? Could this disadvantage IHCs and foreign banking organizations as compared to their domestic counterparts?

On October 10, 2019, the Board of Governors (Board) issued final rules that further tailor the prudential standards applicable to large U.S. and foreign banking organizations based on their risk profiles ("tailoring rule"). The tailoring rule largely implements the foreign bank tailoring proposals, with certain targeted changes in response to comments.

Under the tailoring rule, standards applied to the combined U.S. operations of a foreign banking organization would be calibrated based on the risk profile of the foreign banking organization's combined U.S. operations. Likewise, standards applied to a U.S. intermediate holding company, such as capital requirements, would be based on the risk profile of the U.S. intermediate holding company. The final tailoring rule amended the foreign bank tailoring proposals to apply liquidity coverage ratio standards to the U.S. intermediate holding company based solely on the risk profile of the U.S. intermediate holding company, rather than the risk profile of the combined U.S. operations of the foreign banking organization. This change simplifies and enhances the focus of the tailoring framework.

The tailoring rule tailors the application of enhanced standards based, in part, on the size and complexity of a foreign banking organization's activities in the United States. Moreover, the standards applicable to foreign banking organizations with a more limited U.S. presence largely rely on compliance with comparable home-country standards applied at the consolidated foreign parent level. In this way, the tailoring rule helps to mitigate the risk such banking organizations present to safety and soundness and to U.S. financial stability.

The tailoring rule uses similar risk-based indicators to apply consistent standards to foreign and domestic banking organizations of similar risk profiles. This helps to ensure a level playing field and takes into account the principles of national treatment and equality of competitive opportunity. At the same time, the indicators also include certain adjustments—for example, in the measure of cross-jurisdictional activity—to reflect the structure of foreign banks' operations in the United States.

16. Transactions between the IHC and its foreign parent, as well as their subsidiaries, are included in IHC RBI calculations, but are generally excluded for U.S. bank holding companies.

• Please explain why this approach to risk is necessary to ensure safety and soundness in the financial system.

For domestic firms, the standards apply to the consolidated top-tier U.S. bank holding company and, in certain cases, to subsidiary depository institutions. For foreign banks, the tailoring rule continues the Board's approach of tailoring the application of standards based on the risk profile of the foreign bank's U.S. operations in order to capture the full scope of risks that these banking organizations present in the United States. Transactions between the U.S. operations of a foreign bank and the foreign parent generally are included in the calculation of the risk-based indicators for foreign banking organizations in order to capture certain risks of transactions conducted by the foreign bank with its parent.

The tailoring rule also includes certain adjustments to address differences between foreign and domestic banking organizations. For example, the cross-jurisdictional activity indicator excludes cross-border *liabilities* of a foreign banking organization's intermediate holding company to its non-U.S. affiliates and also excludes certain collateralized claims with affiliates from the measure of cross-jurisdictional activity. The final tailoring rule does not, however, exclude all cross-border *claims* of a foreign banking organization's intermediate holding company on its non-U.S. affiliates. This approach takes into consideration the risks posed by transactions with non-U.S. affiliates and the structural differences between U.S. bank holding companies and the U.S. operations of foreign banks.

17. Certain non-bank assets, such as Treasuries and other high-quality liquid assets are included in the RBI calculations, when these assets are generally considered to be safe by the Board.

• Please explain why these assets should contribute to risk-based indicator calculations, and why these assets were not considered in the U.S. bank tailoring proposal.

The tailoring rule adopts risk-based indicators that reflect risks to the safety and soundness of a firm and to U.S. financial stability. The risk-based indicators generally track measures already used in the Board's existing regulatory framework in order to maintain the predictability of the tailoring framework and minimize incremental compliance costs. Each of the risk-based indicators is designed to identify, in a simple and transparent way, firms that pose heightened risk. As a result, modifications to exclude certain assets from the calculation of the risk-based indicators would generally not align with the full scope of risks intended to be measured by the indicators, including risks associated with operational and managerial complexity.

The Board received numerous comments on the calculation of the risk-based indicators. For example, a number of commenters suggested that the amount of the short-term wholesale funding indicator should have been reduced by the amounts of high-quality liquid assets held by a banking organization or any high-quality collateral used for secured funding. Revising the short-term wholesale funding indicator in this way could have understated financial stability and safety and soundness risk because such an approach would have assumed that those assets are available to offset funding needs in stress conditions. Moreover, such a change would have reduced the transparency of the weighted short-term wholesale funding indicator, which would have been contrary to the Board's goal of providing a simplified measure to identify banking organizations with heightened risks. As a result, the tailoring rule adopted the weighted short-term wholesale funding indicator without change.

18. As the Federal Reserve works to finalize its foreign bank tailoring proposal does the Board anticipate any potential risks of less participation by foreign banks and heightened concentration among domestic firms?

The presence of foreign banking organizations in the United States brings competitive and countercyclical benefits to U.S. markets, as these firms serve as an important source of credit to U.S. households and businesses and contribute materially to the strength and liquidity of U.S. financial markets. In developing the tailoring rule, the Board took into consideration these benefits as well as the principles of national treatment and equality of competitive opportunity.

19. Work through international bodies, such as the Financial Stability Board, has significantly improved financial regulation around the globe, including the adoption of enhanced capital standards, stress and liquidity testing and resolution planning.

• How is the Federal Reserve's foreign bank tailoring proposal incorporating the maturity of financial regulation around the world?

• How is the Board incorporating concern of fragmentation and other detrimental results?

It is in the interest of the United States for there to be a core set of global bank regulatory standards. Such standards help to promote competitive equality and avoid a race to the bottom in financial regulatory standards. In this regard, the Board is an active member of international bodies, such as the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision. The FSB's work to identify, understand, and address vulnerabilities in the financial system is critical to help protect the U.S. and global economy from another severe financial crisis. Global post-crisis financial regulations, such as liquidity and regulatory capital standards, have resulted in substantial gains in resiliency for individual U.S. firms and for financial stability in general.

In the United States, the Board, along with the other banking agencies, has implemented internationally agreed-upon standards through a rulemaking process that was subject to public notice and comment. The aim of foreign banking standards under the tailoring rule is to ensure that there is alignment between the regulations applicable to foreign banks operating in the United States and the risks posed by these firms, including regulations adopted following the financial crisis. In this manner, the tailoring rule helps to ensure a level playing field and takes into account the principles of national treatment and equality of competitive opportunity. For foreign banking organizations with a limited presence in the United States, the tailoring rule largely defers to home country standards.

Since becoming the chair of the FSB, Vice Chair Quarles has been a strong proponent of the FSB's work on market fragmentation. On June 4, 2019, the FSB issued a report on market fragmentation that focuses on instances where reducing market fragmentation could have a positive effect on financial stability or market efficiency without incurring financial stability costs. As part of next steps, the FSB identified areas for additional work and analysis, such as facilitating cross-border cooperation and efficiency with regard to derivatives regulations, prepositioning of capital and liquidity under resolution frameworks, and supervisory activities.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative French Hill:

1. *Federal Reserve Balance Sheet Size*

Chairman Powell, you have testified over the past few years about the reduction of the Fed's balance sheet. You discussed the need for liquid reserves and the changing composition of the Fed's balance sheet since the great recession.

At its peak, the balance sheet was 25% of GDP which is significantly larger than its pre-crisis level of approximately 6% of GDP.

Many indications, plus your own testimony on February 27th, 2019, indicated that the resulting balance sheet is in the range of 16-17% of GDP. And, as of the QI 2019, the board of governors has suggested that you will stop decreasing the size of the balance sheet effective September 30th.

From all appearances the 8% decline in the balance sheet over the past 9 months has, in no way, tightened monetary conditions and appears to have been taken in stride by the broader market. In fact, there is very little academic proof that QE 1 or QE2 contributed any measurable easing or benefit to the economy post-crisis. Therefore, I find it not at all surprising, that there is no appreciable impact in the market from reversing these ill-conceived experiments during the postcrisis environment.

Mr. Powell, I don' t believe that the board has provided sufficient detailed thought backed up by analytical presentation as to why the Fed's balance sheet should stay disproportionately large. Just because other central banks are doing it doesn't make it the proper course of action for the world's largest, most sophisticated, most global central bank.

Will you commit to a public forum led by Fed economists where outside parties can engage on the size and composition of the Fed's balance sheet?

There is a large and growing body of research on the impact of large-scale asset purchases on financial markets and economic growth. Results vary, but most authors find some positive effect of these purchases in easing financial conditions.

In terms of any decisions about the size and composition of the balance sheet, the Federal Reserve believes it is important to be transparent with the public on these issues. There are numerous ways the Federal Reserve communicates with the public about balance sheet issues. At least once a year, the Federal Reserve Bank of New York releases information on the Federal Reserve's balance sheet, with specific details about the evolution of the securities portfolio and projections for how these holdings will evolve.[1] Three weeks after each Federal Open Market Committee (FOMC) meeting, the minutes are released, which provide a summary

[1] https://www.newyorkfed.org/markets/annual_reports.

of any discussion the FOMC participants had on the balance sheet. And, when consensus decisions are reached, the FOMC shares this information with the public by releasing statements, such as in January 2019 when the FOMC participants decided to implement policy in the long-run in an ample reserves regime.

In terms of the current size of the Federal Reserve's balance sheet, it reflects the FOMC's decisions regarding monetary policy implementation as well as the Federal Reserve's statutory responsibilities that are independent of policy decisions. This point is seen in the three key liabilities on the Federal Reserve's balance sheet: currency in circulation, reserves and the U.S. Department of the Treasury (Treasury) General Account (TGA). Each of these liabilities helps provide social benefits to the economy and plays an important role as a safe and liquid asset for the public, the banking system, the U.S. government, or other institutions. And, each of these liabilities has grown both nominally and as a share of GDP over the past decade.

In terms of currency, the largest liability on the Federal Reserve's balance sheet, notes in circulation have more than doubled since the start of the financial crisis, with currency's share of GDP rising from about 5 percent at that time to 8 percent today. U.S. currency is an important medium of exchange and store of value, both domestically and abroad. Despite the increasing use of electronic means of payment, currency remains widely used in retail transactions in the United States. And, with heavy usage of U.S. currency overseas, changes in global growth as well as in financial and geopolitical stability can also materially affect the rate of currency growth.

Reserves are currently the second largest liability on the Federal Reserve's balance sheet. The FOMC has stated it will in the longer-run hold no more reserves than consistent with efficient and effective policy implementation. This determination will take into consideration the demand for reserves of depository institutions. Banks demand reserves for a variety of reasons. In part, banks determine their desired level to facilitate daily payment flows, both in ordinary times and in stress scenarios, without borrowing funds or selling assets. Banks also demand reserves for meeting regulatory restrictions, which have changed dramatically since the financial crisis, with large banks now maintaining substantial buffers of reserves, among other high-quality liquid assets, to comply with liquidity regulations. Reflecting these various demands, reserves have grown from their pre-crisis very small share of GDP to nearly 8 percent today.

The TGA reflects the fact that the Federal Reserve serves as the Treasury Department's fiscal agent. The size of the TGA is determined by the Treasury's rules. Before 2008, the Treasury targeted a steady, low balance of $5 billion in the TGA on most days. In May 2015, the Treasury announced its intention to hold in the TGA a level of cash generally sufficient to cover one week of outflows, subject to a minimum balance objective of roughly $150 billion. As of early October 2019, the TGA was about $335 billion, or nearly 2 percent of GDP.

Going forward, the Committee will continue its discussion on the composition of the balance sheet. In doing so, it will consider advantages of alternative compositions. As individuals outside the Fed have opined on the issue, these views are publically known and can be included in the discussion.

2. *Federal Reserve Balance Sheet Composition*

As you know, I believe that the Fed's balance sheet should be composed of treasuries only, and for the most part, only short-term treasuries.

Given this sudden affection for a large balance sheet, will you advocate with your colleagues at the board of governors for a swap of the remaining agency mortgage-backed securities portfolio to the treasury for short-term treasury bills as mortgage-backed securities have consistently made up about 40% of the balance sheet since, at least, October 2018?

In my view, it's important that the fiscal authority take the responsibility for the balance sheet and resulting profit or loss from extraordinary asset purchases during the crisis be they mortgage-backed- securities, Maiden Lane assets, or any other asset taken as a part of the crisis intervention.

By emphasizing short-term treasury bills, this is more in line with the board of governors' current policy of setting a policy rate. This will keep the Fed's earnings more in line with their stated policy rate.

The FOMC will be continuing its discussion of the longer-run composition of its balance sheet at future meetings. That said, the FOMC has already noted that it intends, in the longer run, to return to holding primarily Treasury securities. Over the past several years, the FOMC has taken steps to reduce the Federal Reserve's holdings of agency mortgage-backed securities (MBS). Currently, monthly principal payments from agency debt and agency MBS below the $20 billion are reinvested into Treasury securities, which is shifting the Federal Reserve's securities holdings toward Treasury securities.

At past FOMC meetings, participants began their discussion about the future composition of the Federal Reserve's Treasury securities holdings. Participants have discussed advantages of alternative compositions. For example, they noted that shorter maturities would provide flexibility to lengthen maturity if warranted by an economic downturn, whereas a portfolio with maturities that matched the outstanding Treasury market would have a more neutral effect on the market. These and other factors, including the point you raised, will be taken into consideration before any decision is made.

Questions for The Honorable Jerome H. Powell, Board of Governors of the Federal Reserve System from Representative Himes:

1. Does the Federal Reserve Board view facilities, structured like narrow banks, as a way to provide competition in the interest rate environment? If not, why not?

Depending on the prevailing constellation of short-term interest rates, facilities structured like narrow banks may foster competition by offering alternative, competitively priced deposit products to institutional investors. However, it is unclear that any benefits from improved competition will be passed through to retail depositors. In addition, the potential improvements to competition would need to be assessed against risks to financial intermediation, financial stability, and the implementation of monetary policy.

The Board has addressed these issues in greater detail in its March 12, 2019, advance notice of proposed rulemaking for its Regulation D (84 Fed. Reg. 8829).[1]

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[1] See https://www.govinfo.gov/content/pkg/FR-2019-03-12/pdf/2019-04348.pdf.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Ranking Member Patrick McHenry:

1. In your most recent Monetary Policy Report, the Fed suggests that modest wage growth may be linked to weak productivity growth. What do you believe is the most plausible explanation for slow productivity growth, and what kinds of policies would you recommend prioritizing in order to address it?

Labor productivity in the business sector rose at an annual rate of 1¼ percent from 2007 to 2018, about half its pace from 1991 to 2007. Many factors have likely contributed to the slowdown in productivity growth, most prominently lower business investment and slower capital accumulation during the current expansion compared with earlier expansions. Other possibilities include the absence of a new, economy-changing technology, whose adoption could spur another wave of strong productivity growth, or that recent technological advances are taking longer to percolate through the economy.

While the Federal Reserve can indirectly influence productivity growth by calibrating monetary policy to achieve stable macroeconomic conditions that are conducive to increasing business investment, prescriptions to increase productivity growth are more likely to be found in fiscal and regulatory policies than in monetary policy.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Ranking Member Patrick McHenry:

2. At your January press conference, you were asked whether a $4 trillion balance sheet gave you sufficient firepower to handle a future recession. You answered yes. However, the Fed's balance sheet, as a share of GDP, is about where the Bank of Japan's balance sheet was prior to the financial crisis. Today, the Bank of Japan has ended up with a balance sheet as large as the Japanese economy, with mixed results on inflation and limited room to handle another downturn.

Has Japan's experience affected your thinking on the appropriate size of the Fed's balance sheet, and how will the Fed work to ensure that the U.S. would avoid a similar fate?

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment and stable prices. At each FOMC meeting the Committee evaluates data on the U.S. economy and chooses the appropriate stance of policy to continue to move the economy toward its mandated objectives. The current size of the Federal Reserve's balance sheet reflects the FOMC's decisions regarding monetary policy implementation as well as the Federal Reserve's statutory responsibilities that are independent of policy decisions.

Three key liabilities on the Federal Reserve's balance sheet are currency in circulation, reserves and the Treasury's General Account (TGA). Each of these liabilities helps provide social benefits to the economy and plays an important role as a safe and liquid asset for the public, the banking system, the U.S. government, or other institutions. And, each of these liabilities has grown both nominally and as a share of GDP over the past decade.

In terms of currency, the largest liability on the Fed's balance sheet, notes in circulation have more than doubled since the start of the financial crisis, with currency's share of GDP rising from about 5 percent of GDP to 8 percent today. U.S. currency is an important medium of exchange and store of value, both domestically and abroad. Despite the increasing use of electronic means of payment, currency remains widely used in retail transactions in the United States. And, with heavy usage of U.S. currency overseas, changes in global growth as well as in financial and geopolitical stability can also materially affect the rate of currency growth.

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The experience of other countries including Japan suggests that it is important for central banks to act aggressively and preemptively to avoid protracted scenarios in which short-term interest rates are forced to the effective lower bound, and inflation and inflation expectations run chronically below desired levels. In Japan and in Europe, policymakers have found it very difficult to escape these conditions, in part because they may have delayed too long before taking strong actions. For its part, the FOMC has indicated that it is prepared to use all of its tools including forward guidance and asset purchases as necessary to promote its statutory objectives in a scenario in which the federal funds rate is at the effective lower bound. That posture is especially important now given the secular decline in the level of interest rates. The current low-interest rate environment suggests that central banks have less scope to ease policy now with their traditional tool of short-term interest rates and the probability of becoming constrained by the lower bound is thus higher than in the past. As a result, central banks around the world have been focusing on developing new tools and strategies to provide policy accommodation when needed to steer clear of the types of difficulties faced in Japan over recent decades. Indeed, the issue of how best to contend with the effective lower bound on short-term interest rates is one of the key areas of focus in the Federal Reserve's current review of its policy strategies, tools, and communications.

3. At your last hearing, the gentleman from New York, Mr. Zeldin, brought up the 2016 hack of Bangladesh's central bank, which led to the theft of $81 million by exploiting fraud detection vulnerabilities at the New York Fed. Since then, we had a hearing with major bank CEOs who identified cybersecurity as a profound risk to the financial sector. We've also recently witnessed ransomware attacks threaten essential government services in Maryland and Florida.

I was hoping you could provide us with more details on the Fed's efforts to strengthen cybersecurity at both the operational and supervisory levels.

In particular, who is accountable for overseeing these efforts at the Fed, including information sharing and the protection of your systems; and what kinds of contingency planning and stress tests is the Fed undertaking to improve our resilience against hacks in the future?

The Federal Reserve Board (Board) is aware of the risks and threats within cyberspace. The Board complies with the Federal Information Security Modernization Act and, among other requirements, National Institute of Standards and Technology (NIST) guidance as applicable, to manage its information security including cyber risks. Current areas of focus include ensuring that sensitive information, such as personally identifiable information (PII), is protected and handled appropriately, and protecting against advanced hacking techniques from nation states and other advanced actors, insider threats, and Distributed Denial of Service (DDOS) attacks.

To address these challenges, the Board has implemented and continues to enhance its Data Loss Protection program. The Board has taken steps to enhance information handling policies, encryption of data at rest, including databases containing PII, and incident response processes. The Board also is working to improve its continuous advanced persistent threat and DDOS protection and detection capabilities. In addition, the Board is in the process of implementing the Department of Homeland Security's (DHS) Einstein suite of advanced intrusion detection capabilities and enhancing the Board's continuous monitoring program through participation in DHS's Continuous Diagnostic and Mitigation program.

The Federal Reserve Banks also maintain an information security program based on NIST standards. The Board and the Reserve Banks (collectively, the Federal Reserve) use a comprehensive defense in-depth approach whereby multiple layers of security controls are implemented to protect sensitive information as well as vigilantly monitoring probes and attacks on an ongoing basis. It is important to acknowledge, however, that no defense is foolproof. Early detection of attacks is just as important as prevention through multiple layers of defense. Hence, we continually work to identify and remediate attacks before any damage occurs.

The Bank of Bangladesh incident in 2016 occurred due to lapses in security controls at the Bank of Bangladesh rather than the Federal Reserve Banks. Nevertheless, the Reserve Banks' financial services functions have taken actions to reduce the risk of wholesale payments fraud related to endpoint security. These actions include reminding customers of the importance of workstation controls, implementing overdraft account monitoring, and providing enhanced customer-account management tools (e.g., limiting payment values or only allowing payments during set time periods during the day). The Federal Reserve also contributed to the publication of an international strategy on reducing the risk of wholesale payments fraud related to endpoint security, and continues to engage with central banks and market participants to monitor efforts to reduce risk.[1]

The Federal Reserve also recognizes the systemic risk posed by cyber threats to the financial system. The global financial services sector has a heightened level of exposure to cyber risk due to its high degree of information technology activities and the increasing interconnection between firms in the sector. As such, cyber risk mitigation and cyber resiliency initiatives continue to be high priorities for the Federal Reserve. To strengthen risk management practices across the financial sector and reduce the impact of cyber-related incidents, the Federal Reserve coordinates with partners through the Financial and Banking Information Infrastructure Committee (FBIIC), the Financial Services Sector Coordinating Council (FSSCC), and the Financial Services Information Sharing and Analysis Center (FS-ISAC). The Board is a member of the FBIIC, which is chaired by the U.S. Department of the Treasury and is comprised of 17 federal and state financial services regulatory agencies or organizations that supervise banking, investment and insurance firms. The FBIIC coordinates and shares information with respect to homeland security issues as they pertain to FBIIC members and financial-sector participants. The FBIIC coordinates with the FSSCC, which is its private sector equivalent and comprised of approximately 70 private sector firms representing financial trade associations, financial market utilities, and the most critical sector firms. Finally, the Federal Reserve is a member, and supports the resilience efforts, of the FS-ISAC, the global financial industry's resource for cyber

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[1] https://www.bis.org/cpmi/publ/d170.pdf.

and physical threat intelligence analysis and sharing. The Federal Reserve encourages the financial institutions that it supervises to incorporate threat monitoring programs and participate in information sharing organizations such as FS-ISAC.

Cybersecurity remains a top supervisory priority as it has implications for the safe and sound operations of financial institutions as well as financial stability. To that end, the Board (including through the Federal Reserve Banks acting on the Board's behalf) has undertaken significant supervisory work to assess cybersecurity risk management at financial institutions that it supervises. The Board is also working with other federal regulatory agencies to streamline and harmonize cybersecurity guidance across the financial sector in a manner that aligns with the NIST Cybersecurity Framework (CSF), which was developed in consultation with government and the private sector. For example, the Federal Financial Institutions Examination Council members released a joint statement on August 28, 2019, emphasizing the benefits of using a standardized approach, such as the NIST CSF or the FSSCC Cybersecurity Profile, to assess and improve cybersecurity preparedness. In addition, in an effort to reduce regulatory burden, the Board is working with the other prudential regulators to identify instances where we can better work together on examinations and concentrate appropriate resources to address cyber risk.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative David Scott:</u>

As a follow-up to our discussion during the hearing, could you please provide some additional information:

- **Can you tell me the approximate number and scope of current LIBOR contracts that do not have fall back provisions?**

The Alternative Reference Rates Committee (ARRC) has estimated that contracts referencing U.S. London Interbank Offered Rate (LIBOR) totaled approximately $200 trillion as of year-end 2016 in gross notional exposure (which includes contracts both with and without fallback language).[2]

To the best of our knowledge, almost all of these contracts have some form of fallback language and examples of contracts with absolutely no fallback provision are rare. However, most legacy contracts referencing LIBOR have fallback provisions that were not designed for the kind of permanent stop or disruption to LIBOR that is likely to occur after 2021. The ARRC has developed and recommended use of more robust fallback provisions in floating rate debt, business loans, and securitizations that address these problems and the ARRC is currently consulting on fallback language for adjustable rate mortgages. For derivatives, which are the largest source of LIBOR exposures, the International Swaps and Derivatives Association (ISDA) will be offering a protocol that addresses these problems.

- **Are contracts still being made that are based on LIBOR and do not have fall back provisions? If so, under what circumstances?**

LIBOR contracts are still being written. As previously noted, there are relatively few LIBOR contracts that have no fallback provision whatsoever, however use of robust fallback language varies by financial institution and product. The use of more robust fallback language now appears to be fairly prevalent in new contracts for floating-rate debt and syndicated loans, but it is less prevalent in other types of business loans and securitizations. While circumstances differ for each firm and it is difficult to generalize, we understand that some firms are still working to evaluate whether to use ARRC recommended fallback language, which is still in process, or to develop company specific fallback language. In this context, it should be noted that the ARRC and industry trade groups (e.g. ISDA) are still deliberating on recommended fallback language for some products.

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[2] See https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2018/ARRC-Second-report.

- **Additionally, can you please discuss the alternative reference rates being contemplated, such as SOFR (Secured Overnight Financing Rate) and Treasury's CMT (Constant Maturity Treasury Rate) and their application to both fixed and adjustable rate mortgages?**

Other reference rates, like the Second Oversight Financing Rate (SOFR) and the Constant Maturity Treasury Rate (CMT), can be or already are used for adjustable rate mortgages. Some banks already offer adjustable rate mortgages[3] based on the CMT rates. The potential for offering adjustable rate mortgages based on SOFR is discussed in the ARRC Consumer Products Working Group white paper "Options for Using SOFR in Adjustable-Rate Mortgages" issued on July 11, 2019, and Fannie Mae and Freddie Mac have indicated that they will build their systems in order to be able to accept these kinds of mortgages. Fixed rate mortgages do not use LIBOR as a reference rate, because the interest rate for those products is fixed at origination.

- **What other issues must be considered during the transition away from LIBOR and how might it impact consumers who may be party to LIBOR based financial contracts?**

Consumers may have a limited understanding of LIBOR, the chosen replacement reference rate, and how their payments on affected variable rate products (such as adjustable-rate residential mortgages) could change. Firms (including creditors and servicers) must ensure any transition complies with applicable consumer protection laws and regulations, such as the Truth in Lending Act and the Federal Trade Commission Act prohibition against unfair and deceptive acts or practices. Relevant elements of a firm's transition strategy may include, as appropriate:

- Identifying affected consumer loan contracts and plans for addressing them;
- Preparing clear and timely disclosures about any change in terms, including any regulatory-required advance notice of interest rate changes to borrowers;
- Developing transparent communications plans, which may include guidelines for operational practices and employee training; and clear, understandable, and consistent messaging about the choice of the replacement reference rate, spread adjustment, timing, and other mechanics;
- Implementing system changes required to carry out the transition to the new rate, including any operational considerations for billing cycles.

The ARRC Consumer Product Working Group has developed a set of guiding principles for consumer loan products and has actively worked with consumer groups and the Consumer Financial Protection Bureau and other agencies in developing both its whitepaper on the potential for SOFR-based adjustable rate mortgages and on its consultation on more robust fallback provisions of LIBOR-based adjustable rate mortgages. The ARRC will likewise work closely with consumer groups in developing a recommended spread adjustment and spread adjusted rate that lenders could choose to move to as a replacement to LIBOR in consumer loan products.

[3] See http://sec.gov/spotlight/fixed-income-advisory-committee/arrc-second-report-041519.pdf.